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D 8523A

LOMBARD
The hurdles EMU has to jump
Page 16

World News

Thief grabs £292m in UK daylight robbery

The Bank of England injected some £250m ($410m) of extra liquidity into London's money markets after a City messenger was robbed of Treasury Bills and certificates of deposit worth £292m.

The Bank also agreed to protect the owners of the bonds against any losses and issued an alert to banks to beware of anyone trying to raise a loan using the bonds. Page 18

D-Mark swap agreed

The Germanys have reached a compromise on monetary union that will allow older East Germans to swap up to 6,000 Marks at par. Page 18

Overhaul planned

The US said the list of strategically sensitive exports to eastern Europe and the Soviet Union now covered by multilateral licensing requirements should have "a complete overhaul" by the end of this year. Page 18

Rival parties' pact

Hungary's two strongest political parties announced a pact to end their bitter rivalry at the inauguration of the country's first democratically elected parliament in more than 40 years. Page 18

Mediation appeal

Vytautas Landsbergis, president of the breakaway Soviet republic of Lithuania, appealed to West Germany and France to help open negotiations with the Soviet authorities. Page 18

Poland assured

Senior Foreign Ministry officials from Poland and the two Germanys are to meet today for the first time to discuss a planned treaty under which a united Germany will recognise Poland's western frontier. Page 18

UK local elections

Local elections take place today throughout England and Wales. The ruling Conservative party is preparing for widespread losses to the Opposition Labour Party, but hopes to retain control of its "flagship" councils and turn the tide of opposition to the recently introduced Community Charge. Details, Page 11

Emergency ends

Afghan President Najibullah ordered that a state of emergency which has existed in Kabul for more than a year will be lifted tomorrow.

Unity advanced

The leaders of North and South Yemen advanced the union of their two states by six months to May 26.

Illegal export charge

The managing director of one of the companies at the centre of the Iraqi supergun affair was charged with illegally exporting equipment. Earlier story, Page 12

New rights in Nepal

Nepal's new Prime Minister Krishna Prasad Bhattarai said freedom of speech will be protected in a new constitution.

Taiwanese offer

President Lee Teng-hui offered the premiership to Taiwan's top military official in a move that the opposition termed a step backwards for democracy.

Damages for Swede

A Swede who won an appeal against his conviction for the 1986 murder of Prime Minister Olof Palme was awarded SKr300,000 ($49,000).

Questions on fire

Libya is questioning two West Germans about a fire at a Libyan chemical plant in March.

Black out

Saboteurs dynamited a major electrical transmission tower in Guatemala City, blacking out most of the country.

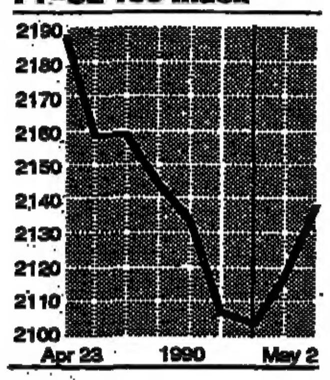
Business Summary

US intends to 'overhaul' sensitive exports rule

THE BUSH Administration yesterday said the list of strategically sensitive exports now covered by multilateral licensing requirements should have "a complete overhaul" by the end of this year. The White House acknowledged that "careful study indicates that most of the goods and technologies that we currently control to eastern European and Soviet destinations are of low strategic value and should be decontrolled." Page 18

MARKETS: UK futures market again came to the help of London stocks, and share prices made further progress despite the shadow ahead of today's voting in the British local elections. In Tokyo currency stability and expectations of future strength in equities encouraged broad-based buying. Most leading European bourses made gains but disappointing earnings left the Netherlands lower. Wall Street registered small gains by midsession. Back Page, Section II

FT-SE 100 Index



WILLIAMS Holdings is selling its Crown Berger paints businesses in the UK and Ireland to Sweden's Nobel Industries for an initial £205m ($336m) in cash. Up to £35m more will be payable if Crown's sales achieve their £240m budget this year. Page 19

GATT director-general Arthur Dunkel has hailed the US decision not to impose immediate sanctions against Japan as a turning point for the Uruguay Round of trade negotiations. Page 8

AUSTRALIAN regulatory authorities moved quickly to prevent Mr Robert Maxwell, the British media proprietor, from acquiring a 14.9 per cent stake in the Bell Group, a 74.5 per cent media subsidiary of Bond Corporation Holdings, Mr Alan Bond's troubled master company. Page 19

COSTA RICA and foreign bank creditors are set to begin signing on Saturday an agreement which will reduce the country's bank debt service bill by almost three-quarters. Page 10

ASIAN Development Fund, the soft loan window of the Asian Development Bank, is set for a $5bn-$6bn replenishment from donor nations Page 7

DSM, Dutch chemical group which was partially privatised in an international launch last year, reported an 18.5 per cent fall in first-quarter results, following the trend set by Akzo, the other big Dutch chemical concern, last week. Page 21

GENERAL RE, largest reinsurance group in the US, announced a 5 per cent increase in first quarter net income per share, excluding realised capital gains. Page 20

AUSTRALIAN Stock Exchange announced plans to close two of its four trading floors and move towards fully automated dealing. Page 25

COURSE grain consumption could outstrip production for the fourth consecutive year, reducing stocks to their lowest level since the mid-1960s, the International Wheat Council believes. Page 32

Freed hostage names other captives held in Beirut

By Our Foreign Staff

MR FRANK REED, the American freed by a group of pro-Iranian kidnappers in Lebanon on Monday, yesterday provided further proof that the other western hostages are alive and well by naming two British and two American hostages he had been held with.

Speaking in Wiesbaden, West Germany, Mr Reed said he had spent long periods of time in captivity with other western hostages, and had seen British journalist Mr John McCarthy and teacher Mr Brian Keenan last Saturday.

His comments were further evidence that most Lebanese Islamic kidnap groups are linked, despite their various pseudonyms.

"I have been with John and Brian since last October," Mr Reed said, adding that he had also previously seen American Mr Tom Sutherland and "Terry" – thought to be reference to American journalist Mr Terry Anderson, rather than Mr Terry Waite, envoy for the Archbishop of Canterbury.

A senior official of Hizbollah, the pro-Iranian umbrella organisation behind the kidnappings, yesterday said that if the remaining six US hostages were to be freed, Washington would have to put pressure on Israel to free its Shia Moslem Lebanese prisoners. They include Sheikh Abdel Karim Obeid, the Hizbollah cleric kidnapped by Israeli forces last year.

Mr Bush hinted delicately this week that he wants Israel to free Sheikh Obeid, saying he had "no objection" to such a move.

Although he has publicly ruled out striking a deal with the kidnappers, Mr Bush has praised Iran and Syria for their role in the recent release of Mr Robert Polhill and Mr Reed, and indicated a softening of Washington's stand against the Islamic government in Tehran.

In the Netherlands yesterday, US and Iranian officials are believed to have made significant progress in talks aimed at settling mutual financial claims arising from the 1979 Iranian revolution.

Mr Abraham Sofaer, legal adviser to the US State Department, and his counterpart in Tehran, Mr Goudarz Eftekhar, are thought to be near an agreement on small claims – those worth less than $250,000 – pending at the Iran-US Claims Tribunal in The Hague.

Mr Sofaer and Mr Eftekhar enjoy good personal relations and have sought to expedite the slow Tribunal process through bilateral talks. An agreement on small claims would bode well for a settlement of other cases and for broader relations between the two sides.

Mr John Kelly, US Assistant Secretary of State, was in Algeria yesterday as part of a tour of North Africa and is likely to have discussed Lebanon and the hostages; Algeria has acted as mediator between the US and Iran.

The British Government and relatives of the British hostages expressed delight at Mr Reed's news yesterday, but Hizbollah's demands and the deep divisions in Iran over the hostages militate against an early end to the hostage crisis.

Four British people out of a total of 15 westerners, are still held hostage in Lebanon.

The difficulties confronting the British hostages were underlined yesterday when the Home Office in London disclosed that an Iranian student had been expelled on Tuesday "for reasons of national security". He was the 10th Iranian ordered out this year.

Brussels seeks new powers in airline pricing

By Tim Dickson in Brussels and Paul Betts in London

THE European Commission is seeking further powers to stop predatory pricing and other anti-competitive behaviour by Community airlines to guarantee the deregulation of European skies by 1992.

The EC is particularly concerned that established national carriers risk squeezing out smaller airlines by predatory pricing policies and unfair inducements to travel agents.

If adopted by member states, the proposed amendment to the EC's competition regulations will enable Brussels to step in to suspend certain practices immediately pending further investigation, rather than using its current procedures which involve a three to four months delay.

"The proposal reflects the aim of creating a liberalised single market in air transport in which competition is maintained and the consumer benefits," an EC official said.

"That is especially important where a small airline is trying to establish itself in the market, or a newcomer is offering new competition by new schedules or lower prices. If we don't act quickly the victim may go out of business," the official added.

The move coincides with a growing controversy in the UK airline market following allegations yesterday by Mr Michael Bishop, chairman of British Midland Airways, of predatory behaviour on the Glasgow-London Heathrow service by British Airways.

Mr Bishop also attacked BA's dominant position at Heathrow, the UK's leading airport, and renewed his opposition to BA's planned acquisition of a 20 per cent stake in the new Sabena World Airways group.

BA vigorously rejected British Midland's allegations of predatory practices, denied it was making losses on domestic routes and said it did not divulge individual route results for commercial reasons. In turn, it accused British Midland of not seeking competition. "They are seeking protection from competition by substitution of themselves for British Airways or other UK airlines," BA said.

The problems of smaller airlines have also been highlighted this week by the bankruptcy of German Wings, a recent start-up independent airline based in Munich.

Practices which may be regarded as predatory include providing so much capacity on a route that other airlines find it difficult to sell their services, charging fares appreciably below the carrier's full costs, or granting loyalty benefits to passengers "which artificially maintain their loyalty to a specific airline."

British Midland's complaint involved allegations that BA had boosted capacity and frequencies on the Glasgow-Heathrow service to drive out competition. BA said it had increased daily flights to Glasgow in response to demand.

Under the new EC proposals, Commission officials stressed that member states would be kept in touch with

Continued on Page 18

Pretoria and ANC begin historic talks

Historic talks between South Africa's white minority government and the African National Congress (ANC) about ending apartheid began yesterday with Mr Nelson Mandela calling for an end to the "master and servant" relationship, writes Patti Waldmeir in Cape Town.

In the opulent garden of magnificent Groote Schuur mansion in Cape Town, South Africa's two most powerful politicians, President F.W. de Klerk and Mr Mandela, deputy president of the ANC, stood side by side for their first joint press conference.

Mr Mandela will have talks in London with Mrs Margaret Thatcher, the British Prime Minister, on July 3 and 4, it was officially announced yesterday. Mrs Thatcher originally invited Mr Mandela to visit Britain on February 11, the day he was set free after having spent 27 years in jail.

Framed against the white-washed gables and varnished teak windows of the house both men spoke of democracy and peace, and hailed the meeting as a step towards a solution to South Africa's problems. This view was disputed by the ultra-right Conservative Party, whose 39 MPs staged a walkout from parliament in protest.

The immediate aim of the talks, which are set to end tomorrow night, is to remove obstacles to discussions on the real issues: a constitutional system to end apartheid and give the vote to the country's unenfranchised blacks; an economic system which will preserve South Africa's relative prosperity on the African continent but distribute the fruits of prosperity much more widely.

The two sides met for four hours before adjourning for a working dinner. In a joint statement issued last night they said the meeting had focused on "a general exposition" by the ANC and the government of obstacles in the way of constitutional negotiations. These included the release of political prisoners, return of exiles and the question of the ANC's armed [illegible].

Continued on Page 18

Philips seeks up-market image with stake in Bang & Olufsen

By Laura Raun in Amsterdam and Hilary Barnes in Copenhagen

PHILIPS, the Dutch electronics group, is buying 25 per cent of Bang & Olufsen (B&O), the Danish audio and video equipment maker, for DKr340m ($53m) in an attempt to enhance its range of premium products.

Philips, Europe's largest electronics company, is recognised for its high technology, having invented the compact disc and audio cassette. But it has been faulted for weak marketing.

Mr Wim Wielsen, managing director of Philips' consumer electronics audio division, said the group wanted to strengthen its position in the premium market for audio and video products while learning from B&O's design and marketing.

Philips' own label and its Marantz subsidiary are upmarket brands, but B&O appeals to audio and video connoisseurs who are as concerned about the appearance of their equipment as the sound and picture. B&O will continue to market under its own label.

The deal will be accompanied by a restructuring of B&O. The present Bang & Olufsen will become B&O Holding and the manufacturing operations will become a subsidiary, Bang & Olufsen A/S. Philips will acquire 25 per cent in the subsidiary.

Philips and B&O have rights of refusal on further 25 per cent share in each other and the 75-25 per cent relationship cannot be changed unless both parties agree. The deal will not give Philips a place on the B&O board. B&O's share price jumped from DKr415 to DKr480 when the deal was announced.

Mr Vagn Andersen, B&O's managing director, described the deal as a marriage of B&O's talent for design and intelligent application of technology with the genius of Philips in research and development. He stressed the long-term strategic elements of the deal between two companies which have had a long-standing relationship, not least through Philips' supply of components to B&O.

Various agreements on co-operation within the fields of technology, purchasing, components and marketing are expected to be concluded by October.

Philips is paying DKr340m for shares with a face value of DKr167m, taking equity capital in B&O's manufacturing arm to DKr841m.

Bang & Olufsen, which has 3,800 employees worldwide compared with 60,000 at Philips, has staged a strong recovery in profits following a dip in demand for its products after the 1987 stock market crash. It reported pre-tax profits of DKr36m in the year ended May 31, against a loss of DKr16m in 1987-88. The recovery was continued in the half year ended November 30, when pre-tax profits were up from DKr2m to DKr26m and sales jumped 22 per cent to DKr1.18bn as products were launched in the US.

Philips also owns 32 per cent of Grundig of Germany. As a result the European Commission may want to review the deal although Philips could not say yesterday whether Brussels had been notified.

CONTENTS

European union: doing nothing is not an option for the UK

Mrs Margaret Thatcher, British Prime Minister, is right in saying other EC members do not know what they mean by political union, but this kind of discourse is simply not accepted across the channel

Page 3

MARKETS

STERLING
New York: $1.643(1.6445)
London: $1.6435 (1.6405)
DM2.765 (2.756)
FFr9.2725 (9.245)
SFr2.3925 (2.385)
Y260.25 (260.5)
£ index 87.1 (86.9)

GOLD
New York: Comex Jun $372.5
London: $370.25 (368.25)

N SEA OIL (Argus)
Brent 15-day Jun $17.425 (17.325)

Chief price changes yesterday: Page 19

DOLLAR
New York:
DM1.6852 (1.681)
FFr5.6535 (5.634)
SFr1.4645 (1.4565)
Y157.95 (158.825)
London:
DM1.682 (1.68)
FFr5.6425 (5.635)
SFr1.455 (1.4545)
Y158.30 (158.85)
$ index 68.3 (68.4)
Tokyo close: Y158.55

US lunchtime rates
Fed Funds $8\frac{1}{8}$%
3-mo Treasury Bills: yield: 8.173%
Long Bond: $94\frac{11}{32}$
yield: 9.043%

STOCK INDICES
FT-SE 100: 2,137.6 (+19.7)
FT Ordinary: 1,678.0 (+14.5)
FT-A All-Share: 1,057.17 (+0.8%)
New York lunchtime:
DJ Ind. Av. 2,681.08 (+12.16)
S&P Comp 333.53 (+1.28)
Tokyo: Nikkei 30,173.64 (+463.81)

LONDON MONEY
3-month interbank: closing $15\frac{11}{32}$% ($15\frac{5}{16}$)
Liffe long gilt future: June ($77\frac{11}{32}$)

Poles and Germans in border talks

By Christopher Bobinski in Warsaw

SENIOR Foreign Ministry officials from Poland and the two Germanys will meet here today for the first time to discuss a planned treaty under which a united Germany would recognise Poland's western frontier.

The meeting comes just before the "two plus four" talks on German unification in Bonn on Saturday and during a visit by Mr Richard von Weizsäcker, the West German President, aimed at dispelling Polish anxieties about a united Germany.

"Poland's current western frontier will remain unviolable", Mr von Weizsäcker said yesterday. "Neither today nor in the future do we make any claims whatsoever on territory in Poland or in any other neighbouring country."

He added a warning that "we should be careful that the newly won freedom from coercion under the dictatorships does not cause old antagonisms to break out."

Poland has asked that a formal treaty recognising its western frontier be initialled by both German states before unification and signed thereafter. Today's meeting is expected to focus on this question, regarded as crucial by the Polish Government.

Earlier in Gdansk, Mr Douglas Hurd, the UK Foreign Secretary, met Mr Lech Walesa, leader of the Solidarity trade union.

Mr Walesa expressed concern that "30 per cent of the population were experiencing difficulties" as a result of economic austerity measures. But he pledged support for the Polish Government. "My union will support this Government because we think it is doing the right things," he said.

The Foreign Secretary was in Gdansk retracing the steps of Mrs Margaret Thatcher, the Prime Minister, when she visited the city in October 1988 several months before the fall of the last Communist Government. Mr Hurd said that the Solidarity leader had told him that "the west must help Poland, must help the private sector, must help to build new enterprises but not through huge government loans."

Mr Walesa explained that the fact that western businessmen and their counterparts in Poland were still talking different languages was a heritage of "more than 40 years of Communism" and that this should be taken into account.

● The US trade union movement is looking to invest some $250m worth of its pension funds in Poland over the next five years, according to Mr John Joyce, a deputy chairman of the AFL-CIO trade union congress, who is on a visit to Gdansk.

Mr Joyce, who is on the movement's pension investment committee, said that he was exploring the possibility of investing $40m in the country "within the next year." The American unions wanted to invest in projects identified and backed by institutions like the World Bank, the International Monetary Fund and the US Government's Overseas Private Investment Agency, he said.

Getting to know the general: President Weizsäcker with Gen Jaruzelski in Warsaw yesterday

Schipol to increase investment in Europe

AMSTERDAM Airport Schipol, the company operating the Netherlands' airports, will today unveil the first stage of a Fl 1.5bn ($794m) investment programme aimed at helping the Dutch capital's Schipol airport become one of the key European hubs in the 1990s, writes Paul Abrahams.

The first part of the project – a Fl 180m pier being opened tomorrow – will increase the airport's capacity from about 16m passengers a year to about 18m. A Fl 500m ($243m) terminal due to open in 1993 will increase capacity to as many as 27m passengers.

The Dutch airport is facing increasing competition from airport companies in the UK, France and West Germany. BAA, the company which runs Heathrow, Gatwick and Stansted, has invested more than £1bn ($1.64bn) since 1986 in developing new and existing terminal buildings.

Aéroports de Paris, which controls the Parisian airports, is investing FFr1.4bn ($240m) this year and FFr1.9bn next year in an attempt to create a Eurohub.

Lafontaine home

Mr Oskar Lafontaine, the West German opposition's candidate for Chancellor who was almost killed in an assassination attempt, left hospital yesterday with doctors recommending that he give campaigning a rest, Reuter reports from Cologne.

Revolt against Moscow gathers pace across Union

By Quentin Peel

THE SIGHT of Soviet demonstrators openly defying President Mikhail Gorbachev and his ruling Communist Party on a May Day parade before the hallowed tomb of Vladimir Lenin was symbolic of the explosion of political debate across the Soviet Union.

It was not just anti-Communist slogans which were bellowed by radical protesters in front of the mausoleum. The supposedly loyal trade unionists who were the first to march on Tuesday paraded their own hostile criticism of the economic reform process,demanding a national referendum on the plan to switch to a market economy.

In the end, that challenge may be more of a threat to the Soviet leader's ambitions than the denunciations of the Communist Party.

The event illustrated dramatically how Mr Gorbachev's attempts to liberalise the old autocracy and promote a genuine devolution of power from the centre have set off an often chaotic debate. The plethora of nationalist flags at the parade, including dozens from rebellious Lithuania, showed the clamour for national autonomy.

The question now is whether the process is still one of devolution, or has become one of disintegration.

The political decision by the Baltic republic of Lithuania to secede was clearly a rebellion against Moscow – although perfectly legal in terms of the Soviet constitution as it stood on March 11. Its disintegrative effect was compounded by President Gorbachev's decision to impose an economic blockade on the republic in an attempt to bring it to heel.

Yet Lithuania is only the most extreme example of a process now under way in many parts of the great Soviet empire. Whether deliberately encouraged or not, the rule and the laws of Moscow are now being more or less openly defied by everybody from individual republics, to regions, cities, enterprises and workers' organisations.

All the Baltic republics now impose restrictions on the goods and foodstuffs that can be bought by non-residents on their territory and taken to other parts of the union. So does the huge city of Leningrad. They have imposed what amounts to an economic blockade of the rest of the Union.

For example, from May 1, Estonia's Economics Ministry established "export quotas" of wood, leather and fur not only to foreign countries, but to other Soviet republics.

On April 20, the Central Asian republic of Uzbekistan, ruled by a loyal Communist Party leadership, suspended deliveries of many vegetables, fruit and dried fruit to the rest of the USSR until June 1 "in an effort to stabilise its domestic market." Exports of locally produced goods including furniture, TV sets, cars and electrical appliances have been drastically cut, according to Tass, the official news agency.

The Western Ukraine, now ruled at the local level by Ukrainian nationalists is contemplating doing the same – restricting shipments of meat and other farm products.

The region has gone even further. The new rulers of Lvov, the regional capital, have formally adopted the national blue-and-yellow nationalist flag of Ukraine, although they are not a republic.

The old red flag of Soviet Ukraine has been banished to an invisible site at the back door of the council buildings.

In the southern Trans-Caucasus, the revolt against Moscow has taken a host of different forms. The most blatant are in Azerbaijan, where railway workers have been imposing a blockade on neighbouring Armenia in total defiance of Moscow for months. Mr Gorbachev, and the Supreme Soviet in Moscow, have ordered that it shall cease. A law was passed outlawing any strike action on the railways and other essential services. All the power of the Ministry of the Interior's troops has failed to lift the action.

Another group of Azerbaijani workers, in the town of Shusha, seized control of their television station, and refused to transmit national television news, replacing it with local nationalist discussions.

In neighbouring Armenia, protesters have been dismantling all roadsigns bearing the name of Lenin. In Georgia, they have demolished every statue of Lenin in every major town except Tbilisi itself, where it is said to be under permanent guard.

The process of flouting the power of Moscow has gone further. Some regions are simply refusing to enact new legislation, either because they find it too conservative, or too radical. Thus the autonomous republic of Komi has never put into effect restrictions on co-operative businesses approved by the Council of Ministers. Other regions are refusing to register any co-operatives at all.

At enterprise level, the crumbling economy has promoted a host of semi-legal or openly illegal practices. Factories have long been involved in direct barter transactions to get around the bottlenecks of central purchasing. Now they are forced to use other devices, like priming their orders with scarce dollars, to ensure supplies.

As for the workers themselves, the average number on strike each day this year has reached 130,000, compared with 100,000 a day last year, in spite of legislation which sought to outlaw such action in a range of key industries. Indeed, Mr Vadim Bakatin, the Interior Minister, openly admits that the new law gave him no powers to stop the strikes, other than the power of exhortation.

THE FIRST Soviet congress of independent trade unions has voted to form a council to unite the country's unofficial workers' groups in a challenge to the state labour movement, Reuter reports from Moscow.

"The aim is to unite all forces and to guarantee the rights of working people in this difficult economic situation," said a spokesman in Novokuznetsk, the western Siberian city in which the meeting was held.

The congress expressed support for the breakaway republic of Lithuania and agreed to form an organisation to defend the rights of rural workers. A resolution condemning the Soviet leadership for taking the economy to the brink of collapse was also approved.

Soviet D-Marks call rejected

By Leslie Colitt in East Berlin

THE EAST German Government has rejected a Soviet call for trade to be conducted in D-Marks from July 2, when the West German currency will be introduced in East Germany.

The Soviet demand for payment in hard currency six months earlier than previously agreed was raised during the visit to Moscow last weekend by Mr Gerhard Pohl, the economics minister, as part of a delegation led by Mr Lothar de Maizière, the Prime Minister.

East German-Soviet trade until now has been conducted in transferable roubles on a clearing system basis.

"We are opposed to payments in D-Marks for Soviet oil and gas as it would be very costly for us," Mr Karl-Joachim Haase, the spokesman for the Economics Ministry, said

Mr Haase said, however, that his Government was prepared to pay large subsidies to companies in order to maintain vital exports to the Soviet Union. Moscow has indicated that maintained trade is one of its conditions for Soviet approval of German unification. The Bonn Government has also assured the Soviet Union that it will honour East Germany's trade commitments.

In a further demonstration of its economic goodwill toward Moscow, East Germany agreed on short notice to deliver Rbs250m worth of meat, sausage and consumer goods this year, which are in critically short supply in the Soviet Union.

De Maizière pledges clean up of Bitterfeld

EAST GERMAN Prime Minister Lothar de Maizière, campaigning ahead of local elections this weekend, visited one of Europe's most polluted towns yesterday and promised a costly clean-up package, Reuter reports from Bitterfeld, East Germany.

"We know that the Bitterfeld region has been particularly exploited," Mr de Maizière told the local council.

Bitterfeld, 180km south of Berlin, is a soot-covered town ringed by chemical plants spewing toxic waste into rivers and smoke stacks belching noxious fumes.

"In the past (the Communist government) just took and did not give in return," he said.

Mr de Maizière said his conservative-led coalition, which took office last month after elections on March 18, felt obliged to improve living conditions in the Bitterfeld region.

EUROPEAN NEWS

All smiles at the summit. But Mrs Thatcher's views are increasingly seen as irrelevant

Europe union: do nothing is not an option

IAN DAVIDSON ON EUROPE

MRS THATCHER is, of course, quite right when she says that the other members of the European Community do not know what they mean by the political union they seem determined to pursue. But she is quite wrong if she thinks that the gibe is conclusive, or even relevant. Her kind of discourse may be admired in Downing Street, but it is simply not listened to on the other side of the Channel.

This much is obvious from the unfolding of events in Paris last week, and in Dublin on Saturday. On Tuesday of last week Mr Douglas Hurd, the British Foreign Secretary, gave a French audience a reasonably urbane version of Britain's well-known reservations about political union. And he broke constructive new ground when he went on to appeal for much closer co-operation between Britain and France in thinking about Europe's new defence structures inside the western alliance.

He might as well have saved his breath on both counts. Two days later the French President and the German Chancellor announced that they were launching their own bilateral study of Europe's defence needs. They also called for an early commitment on negotiations on political union in the EC, a call which secured an effortless majority of the other member states at the summit in Dublin.

There was a time, not very long ago, when Mrs Thatcher's readiness and ability to make trouble in the Community was a subject of mildly anxious debate in other capitals. Now her views are regarded simply as an irrelevant nuisance. In that sense, Dublin marks an important watershed, both in the marginalisation of Mrs Thatcher, and in the development of the Community itself.

In one form or other, economic and monetary union is now widely regarded as a foregone conclusion, even though there are still six months to go before the opening of formal negotiations on the details of an EMU treaty. And some form of political treaty now looks almost equally probable, despite current uncertainty about its content.

If Mrs Thatcher has lost her power to mesmerise the rest of the Community, it is partly because she is in political and economic trouble at home and is no longer the triumphant standard-bearer of invincible economic and political truths. But a more important reason is that the torrent of change in the real world of eastern Europe and the Soviet Union seems to demand a response from the members of the European Community, and to most of them Mrs Thatcher's foot-dragging looks irrelevant and indeed absurd.

The absurdity is, alas, pitifully self-evident. In Dublin Mrs Thatcher proclaimed her determination to protect the British monarchy against any threat from political union in Europe; but the threat she denounced is purely imaginary, since half of the member states are headed by royal families, and none intends to abolish its monarchy in the name of some revolutionary federalism.

But what about her central objection, that the others do not know what they mean by political union, or at any rate have not yet agreed on the meaning? Is this not a fatal charge? Unfortunately for Mrs Thatcher, it is not. The critical dividing line in the Community is not between those who know and do not know what they mean; it is between those who want to do something, and those who want to do nothing.

With the vagaries of perestroika in the Soviet Union, the uncertain consequences of German unification, the quandary of arms control, and the question mark over America's role in Europe, western European countries are faced with a multi-dimensional series of problems which are so complex, so unpredictable, and so potentially dangerous, that they cannot be solved by taking thought. The only plausible policy response is to find friends.

That is the only reasonable explanation of the Franco-German defence undertaking and of the Dublin decision to press ahead with negotiations on political union. There is no more reason to assume an *a priori* agreement on defence policy between France and Germany, than an *a priori* agreement on political union. But France and Germany believe it ought to be in their interest to stick together, and the same goes for the Twelve. As with marriage, so with political union; it's not what you do, it's who you do it with that counts.

When all the familiar cards of international stability are being thrown in the air, doing nothing is not a plausible policy posture, especially if it consists of doing nothing on your own. Perhaps the British Government would prefer to keep Nato as it is, with its existing doctrines of forward defence and flexible response, and with a substantial presence of American ground forces in Germany. But the first two features will simply not be available, and the third will not be available for very long.

This does not mean that the other members of the Community will enjoy a painless ride towards agreement on political union and European defence. On the contrary, they face an agonising reappraisal of traditional assumptions and old alignments. If the West is to mount a serious allied defence of western Europe with much lower force levels generally, and with many fewer American troops, it can only be done on two new assumptions: the Europeans will have to bear most of the responsibility for their own defence, nuclear as well as conventional; and they will *all* have to engage in an unprecedented degree of military integration, including the French.

That will not be at all easy; and it may be that the political union treaty which emerges from the negotiations will be mostly wind and waffle. But it would be stupid then, as it is stupid now, for Mrs Thatcher to stand and jeer. Her posture of national immobilism is not a response to anything, and certainly not to the earth-shattering changes which are taking place in the world around her.

Brussels to extend financial aid to east

DETAILED proposals for extending financial assistance to five newly democratised countries in eastern Europe were endorsed in Brussels yesterday, writes Tim Dickson in Brussels.

The European Commission – co-ordinating the so-called Phare programme on behalf of 24 western nations (G24) – agreed that Bulgaria, East Germany, Czechoslovakia, Yugoslavia and Romania should be included.

Areas of support will be discussed by a group of experts from the G24 in three weeks' time, and are likely to form the basis of a full ministerial agreement in June or July.

No commitments have been made on the scale of the enlarged operation, which so far only applies to Poland and Hungary. The 12 EC countries allocated Ecu500m ($610.00m) for Phare in the 1990 budget. It is likely that this contribution will be increased to around Ecu1bn ($1.22bn) by 1992.

The principal areas of financial assistance proposed by the Commission are improved access to western markets, food aid, training, the environment, investment and economic restructuring, and financial support.

Commission proposes cuts in truck diesel emissions

By Tim Dickson in Brussels

PROPOSALS to cut pollution from diesel driven lorries by between 40 and 60 per cent were agreed yesterday by the European Commission.

The plan, if adopted by member states, will land industry with a large but as yet unquantified bill to make the necessary adjustments.

It follows the culmination last year of a long and politically charged EC battle to cut emission levels from cars.

Unveiling the new directive at a press conference in Brussels Mr Carlo Ripa di Meana, the EC's Environment Commissioner, pointed out that "harmful gas from all types of road transport represent 80 per cent of carbon dioxide caused by man's behaviour, 50 per cent of all hydrocarbons, and 50 per cent of nitrogen oxides."

Referring to the much greater use of roads than rail or rivers for the purposes of commercial transport, he commented: "The carriage of transport by road is a cancer which we cannot delay dealing with. The EC must have the will to find solutions to problems that cannot be put off until tomorrow."

One significant dimension of yesterday's announcement is the bearing which the proposed directive may have on negotiations between the Community and Austria and Switzerland.

Inspired mainly by environmental concerns these two countries have both placed limits on vehicles crossing their territories, though Austria's ban on nighttime driving is

The plan, if adopted by member states, will land industry with a large but as yet unquantified bill to make the necessary adjustments. One significant dimension of yesterday's announcement is the bearing which the proposed directive may have on negotiations between the EC and Austria and Switzerland.

mainly to do with noise.

Mr Ripa di Meana yesterday promised new Brussels proposals on noise limits later this year and pointed out that the new limits for diesel lorries from the Commission would be identical to those due to come into effect next year in those two neighbouring states.

Commission officials say that manufacturers have the necessary technology to meet the new standards for diesel motors and that following consultations Brussels believes that a two step approach is appropriate.

The first will come into effect at the same time as the new car emission levels(July 1992-January 1993) with the second tougher regime scheduled for 1996-97.

● Mr Michele Lacalamita, President of the Association of European Community Shipowners, yesterday called on the EC to improve the effectiveness of port inspection procedures for vessels.

Commenting on "the number of recent accidents" he said that any developments in the field of safety standards and crew qualifications should be "internationally agreed" and that any EC remedy "would lead to a dangerous proliferation of different and conflicting requirements worldwide."

However, port state control mechanisms were sometimes "lax" and a European co-ordinating body would be welcomed by the industry.

IG Metall workers in more wildcat strikes

WEST GERMANY'S largest union disrupted car and electronics production yesterday with a second day of wildcat strikes to push its claim for a shorter working week, Reuter reports from Bonn.

Nearly 70,000 members of the huge IG Metall union across the country stopped work, a union spokesman said.

The Opel car plant in Bochum was the worst hit as 5,500 workers walked out, halting production for several hours.

IG Metall, the western world's biggest union with about 3m members, began its war of nerves with employers with strikes on Monday, the eve of the May Day workers' holiday.

It wants wage rises of up to 9 per cent and a cut in weekly working hours to 35 from 37. Employers have offered a 5 per cent increase over 15 months and to discuss a cut in working hours in 1993.

The threat of a major strike, coupled with inflation fears based on the introduction of the West German mark into East Germany in July in preparation for unification, pushed the mark down on foreign exchange markets on Wednesday.

"It looks like things are heating up and the positions are being drawn for a major battle," one trader said. "And that would be bad news for West Germany and the mark."

Yesterday's strikes also hit Audi carmakers and the electronics firm Telefunken in the south of the country. More warning strikes are planned for today, Friday and Monday.

A three-year contract between the union and employers expired at the end of March. During a 30-day cooling off period, which ended on Sunday, unions were not permitted to call strikes, nor could employers lock out workers.

Union leaders have pledged that if they do not achieve their aims in talks resuming on Thursday, they will decide next week whether to hold a strike ballot for members.

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Romanians intent on breaking their long silence

Owen Bennett-Jones in Bucharest reports on an electorate developing an enthusiasm for campaigning

A DEMONSTRATION on University Square in the centre of Bucharest which has been running almost continuously for a week now, seems to symbolise an electorate which, kept quiet for decades, now seems intent on making itself heard.

Even a dawn raid by the security forces failed to dampen the enthusiasm of the protestors. In fact, it had the opposite effect, as the authorities have tacitly admitted by their subsequent inaction.

Since that intervention, a crowd, the size of which fluctuates between 200 and 5,000, has resolutely yelled anti-government slogans and displayed not the slightest intention of moving.

Take a recent electoral rally of Mr Radu Campeanu, the National Liberal Party candidate, in the Transylvanian town of Sibiu. He addressed a crowd of about 3,000. The majority were his supporters but about 500 had come to heckle on behalf of the National Salvation Front. It looked like a situation with violent potential but instead developed into a singing competition between the two groups.

"Down with Iliescu" and "Terrorists" shouted the Campeanu supporters. "Up with Iliescu" and "Victory is Ours" came the reply from the others.

But when one man went so far as to throw a crumpled up piece of paper at the other camp he was immediately reprimanded by everyone around him. The chanting went on for several hours before the crowd dispersed and people returned to their homes.

It's an auspicious start to a campaign that has now begun in earnest with three candidates officially in the field. Mr Ion Iliescu, the interim President and leader of the National Salvation Front is the favourite to win but opposition strategists argue that they still have a chance if they can force the vote to a second round.

With the deadline for nominations now closed, the three candidates are Mr Iliescu, Mr Radu Campeanu and Mr Ion Ratiu of the National Peasant Party. While the opinion polls published in Romanian newspapers are probably not very reliable, they are at least consistent in putting Mr Iliescu at the top of the popularity ratings.

His personal support, however appears to be lagging behind that for his party, the National Salvation Front. While the front consistently polls 50 per cent to 60 per cent support, Mr Iliescu himself typically attracts around 40 per cent. Mr Campeanu though, apparently draws a similar degree of support as his party: between 30 per cent and 40 per cent.

Mr Iliescu's chief handicap is his record as a Communist Party official. Opposition activists have been circulating pictures of Mr Iliescu playing chess with the former dictator Nicolae Ceausescu.

Mr Campeanu, meanwhile, is having to fend off criticism that he did not suffer the privations of life under the Ceausescu regime but rather enjoyed a luxurious life-style and according to the ever-active rumour mill, a decadent one at that when he was living in exile in France.

The third candidate, Mr Ion Ratiu, head of the National Peasant Party, are polling between 5 per cent and 10 per cent. Supporters account for the low figure by arguing that the polls are based on samples from the big cities and therefore miss much of the peasant party support.

Nevertheless it's unlikely that Mr Ratiu, a reputed millionaire, who is widely perceived as having been selected by the Peasant Party for the resources he would bring to the organisation, will be able to challenge the two front runners. He has already declared that he would back Mr Campeanu in a second round.

But that may not be of too much concern to an opposition whose chief hope is to prevent Mr Iliescu from scoring more than 50 per cent support in the first round election on the May 20.

President Ion Iliescu: facing increasing opposition from anti-government demonstrators

Under Romania's electoral law, if no candidate polls more than 50 per cent, then a second round of voting will be held on June 3 in which the two leading candidates will fight it out.

There is little to choose between any of the candidates' policies. The National Salvation Front has issued the most detailed programme but more often than not it falls back on bland generalities. In fact, all of the party manifestos read like hastily assembled lists of desirable objectives. And by and large they are all the same with successive paragraphs describing the importance of pluralist democracy and the introduction of some markets into the economy.

On economic policy the Front, like the other parties, favours the immediate privatisation only of small businesses. There seems to be a consensus that control of the large enterprises and those of "strategic importance" should remain in the Romanian Government's hands. Unlike the other parties, however, the Front specifically supports allowing foreign companies to own 100 per cent of Romanian enterprises, although it fudges on the whole question of the repatriation of profits.

This would maintain the position taken by the interim government and goes further than the opposition parties which all talk about encouraging only joint ventures. Mr Ratiu, it should be said, parts company with the National Peasant Party on this point saying that he welcomes any form of foreign investment in the country.

And the Front programme does go into some detail on price reform. Citing anticipated difficulties with abandoning the present rigidly controlled price system, the Front says that in the short term, it will maintain prices both between enterprises and for retail goods at their current levels.

In the agricultural sector the Front supports giving land to the peasants for their private use. But in a caveat not mentioned by the other parties it would not allow the peasants to sell this land but that they could only pass it on to their children. This measure, the Front argues, will prevent any one landowner dominating the economy of a village.

But as the parties themselves know, the election is not going to be fought on policy issues: it is a battle for an electorate whose concerns and motives do not extend to the fine detail of, for example, the plans for privatisation. The question rather is, who do the people trust?

The established post-revolutionary leader, Mr Iliescu, or the man who says that the Front is too supportive of the old Communist structures, Mr Campeanu.

The electorate seems satisfied with the post-revolutionary government. This is associated only with Mr Iliescu despite the fact that the opposition has 50 per cent representation in the provisional council for national unity.

Mr Iliescu is credited with having provided more food, heat and light in three months than the Ceausescu regime could deliver in 25 years.

Short extension to shipbuilding subsidies system

By Lucy Kellaway in Brussels

THE EUROPEAN Commission has proposed that its system of subsidies to shipbuilders should be extended for a further two years, rather than the five years hoped for by the industry.

The shorter period will give the EC more flexibility in negotiating within the OECD an international agreement on shipbuilding subsidies. The Commission hopes that by the time the new directive expires a broad agreement will have been reached on the phasing out of all subsidies allowing the industry to move gradually towards free competition.

Under the present directive, which expires at the end of this year, the maximum subsidy permitted to the European shipbuilding industry is fixed by the Commission – and is currently at at 20 per cent.

This level has been being steadily reduced as the crisis in the industry has receded. The Commission said yesterday that any further changes would be downwards.

The new directive will bring Spain and Portugal under the rules for the first time, and will also contain tighter provisions than before on aid to small ships.

● An Ecu300m ($368m) budget for developing energy networks in the poorer parts of the community was agreed yesterday by the European Commission. The money will go towards building a natural gas network in Greece and Portugal, towards establishing connections between the electricity and gas networks in the Southern States, and connections between the gas networks of Ireland and the UK.

Turkey scraps plans for Kurdish camp

TURKEY has scrapped a United Nations-sponsored project to build homes in central Anatolia for 13,000 Iraqi Kurdish refugees, a UN official said yesterday, Reuter reports from Ankara.

"We have been informed by the Turkish Foreign Ministry on April 23 that the project, as its stands, would be stopped," Daniel Conway, representative of United Nations High Commissioner For Refugees said.

He said over $14m had been pledged internationally for the housing project in Yozgat province, 220km east of Ankara, and some of the funds had already been paid.

Turkish Foreign Ministry spokesman Mr Murat Sungar *said the project had been* stopped after reaction from the people of Yozgat who had formed committes to block the settlement of the Iraqi Kurds.

About 13,000 of some 36,000 Iraqi Kurds who fled over the Turkish border in July and August 1988 to escape Baghdad's military drive in the north, are living in a tent city in Turkey's south-eastern Mardin province.

"The Iraqi refugees in Mardin did not want to settle in Yozgat either," Mr Sungar said. "We simply do not know what to do with the money or pledges," Mr Conway said. "Some donors have made their pledges conditional on being used in Turkey," he added.

The biggest pledges to the project came from the United States with $5m, the EC with $1.2m and Finland and Japan with $1m each. Turkey refuses to grant official refugee status to the Iraqi Kurds citing an international agreement under which it is not obliged to accept refugees from non-European countries.

● *The Government* was accused in the Turkish press of taking hasty measures ahead of May Day which ended in violent clashes between protesters and police, Reuter adds. Two people were shot and wounded and at least seven policemen injured in Istanbul where demonstrators defied a ban on May 1 celebrations.

Arab foes step out on road to reconciliation

By Tony Walker in Nicosia

THE ARAB world took a step towards closing ranks yesterday with the visit to Damascus of President Hosni Mubarak of Egypt – the first to the Syrian capital by an Egyptian leader in 13 years.

At the same time, bitter foes, Syria and Iraq were reported to have toned down their media campaigns against each other while efforts continue to resolve their differences.

Mr Mubarak was greeted on his arrival in the Syrian capital with a 21-gun salute and a warm hug from Syria's President Hafez al-Assad. The Egyptian leader's arrival was broadcast live on Syrian television.

The late Egyptian president Anwar Sadat visited Damascus in 1977 shortly before he shocked the Arab world by going to Jerusalem in November of that year. Egypt cut relations with Syria in protest at the virulent Syrian campaign against its peace treaty with Israel. Relations were restored last December.

Mr Mubarak told reporters in Damascus that a process of reconciliation among the Arabs was "a vital and necessary step" to deal with threats to the Arab world.

Arab leaders have been stung into fresh attempts to resolve differences by fears of the threat posed to regional stability by the influx of tens of thousands of Soviet Jews to Israel.

Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, has been campaigning for an Arab League summit in Baghdad later this month to discuss the Jewish immigration issue.

Mr Arafat fears that newly arrived Soviet Jews will flood the occupied territories, foreclosing the possibility of any settlement of the Palestinian question for generations to come.

Egypt and Saudi Arabia have not yet committed themselves to supporting calls for an emergency summit in the Iraqi capital. Their support will depend, it seems, on whether the Syrian and Iraqi presidents can be persuaded to put aside their differences – if only momentarily – in the interests of Arab unity.

Presidents Assad and Hussein, the two leaders of rival wings of the Arab Baath Socialist Party, have been at loggerheads for 20 years. Syria's support for Iran in the Gulf War further exacerbated their long-standing differences.

President Saddam Hussein is also anxious to secure strong Arab endorsement for what he views as a western-inspired campaign against Iraq.

Iraq has come under concerted criticism recently in the West over its human rights record and its attempts to acquire a sophisticated arsenal of weapons of mass destruction.

President Assad (left) laid on a guard of honour for President Mubarak in Damascus yesterday.

Nepalese old guard sets up right-wing opposition party

By K.K. Sharma in Kathmandu

ABOUT 150 right-wing members of the dissolved National Assembly are to form a political party to oppose the new multi-party coalition government, led by Mr K.P. Bhattarai of the Nepali Congress.

The new party, which has not been named and which does not yet have a leader, will be made up of adherents of the former "party-less democracy". Its members include three former prime ministers and 60 former ministers.

The party-less system introduced 30 years ago was the basis of the administration in the Himalayan kingdom until a popular movement for restoration of the multi-party system forced King Birendra to remove the ban on political parties last month.

Since the coalition government took power a fortnight ago, Nepal has been swept by violence directed mainly at the police who, in the people's eyes, symbolise the repression of the last 30 years.

Violence has been curbed in Kathmandu, the capital, by a strict night curfew and army patrols. But it has spread to other towns and provinces, notably Pokhara. Members of both the extreme left and right groups are thought to be behind the violence in which more than 50 people have died in the past week.

The new interim government's main task is to formulate a new constitution for Nepal but it finds itself saddled with a serious law and order problem. This could lead to a situation of near anarchy.

The new political party has been formed to put pressure on the government to restore order and provide protection to all citizens. Its members are directly threatened by the violence.

Although the King is also a target of the instigators of the violence, it is unlikely that he will openly support the new party since he is trying to maintain a neutral position.

The new party, however, plans to contest the first free elections in Nepal when they are held in the next 12 months and expect to cash in on the fact that most people in the kingdom still worship the King as a living god.

Members of the new party allege that the current wave of violence is due to the helplessness of the government to act in the face of intimidation by its communist members.

The authorities, on the other hand, however, feel supporters of the previous system have hired thugs to unleash violence in a bid to damage the image of the government.

Israel cuts water supplies to its subsidised farmers

By Hugh Carnegy in Jerusalem

DROUGHT has forced Israel to cut water supplies to farmers, the main users of the country's already badly depleted water resources, by 35 per cent. Rainfall over the winter rainy season in the main northern catchment areas has been only 70 per cent of the annual average.

The Jordan catchment area, including the disputed Golan Heights, serves water-shy Syria and Jordan as well as Israel and there are longstanding tensions between them over water usage.

Israel also relies heavily on water drawn from aquifers under the occupied West Bank and Gaza Strip where the local Palestinian population complains bitterly of water discrimination against it.

Last week, Mekorot, the Israeli Water Authority, said it was cutting supplies to agricultural users by 20 per cent for the next five months, the main demand period. This was in addition to previous cuts of up to 15 per cent for farms in the northern Galilee area and 7 per cent in the south.

Agriculture accounts for about 70 per cent of Israel's annual consumption of nearly 2bn cubic metres a year. Recently there has been growing criticism of misuse of water by the heavily-subsidised farms. Some 17 per cent of all water supplies goes to the irrigation of cotton, a crop which is not profitable in Israel.

This year, only one quarter of the 400m cubic metres usually drawn from the Sea of Galilee, a chief water source, will be pumped because of dangerously low water levels.

Over-pumping of aquifers also threatens them with salination. The crisis has prompted the authorities to consider importing water from Turkey by sea in special giant plastic barges, although they say this remains at least two or three years away.

Iranian exiles returning to the economic fold

Industrialists are attracted by an easier political and social climate, writes Scheherazade Daneshkhu

DURING the past year, an increasing number of Iranians have been returning to the land they abruptly left after the 1979 revolution. Many are former industrialists who have gone back to reclaim factories or property taken into government hands.

The climate of change in Iran is such that people who might once have feared for their lives now take seriously the prospect of making a living in their former home.

There are estimated to be 2 million Iranians living outside the country. Many of the more affluent exiles chose to live in Europe, especially in France, Germany and the UK, which is home to some 25,000 Iranians. Many more live in the United States – 200,000 in California alone. There is also a sizeable population of less affluent Iranians living in the Indian subcontinent.

President Hashemi Rafsanjani has made the restoration of the economy his number one priority. He has singled out the country's lack of productivity – factories are running at around 25 per cent capacity – and a shortage of managers as among the main impediments to growth. Skilled and semi-skilled workers across the board are needed.

Mr Rafsanjani has also said that the key to independence lies in the creation of a wealthy society. "Anyone who is poor and needy certainly cannot raise his head in the world," he said – a far cry from the insistence of the late spiritual leader, Ayatollah Khomeini, that poverty and isolation were a small price to pay for independence.

Mr Rafsanjani has encouraged the return of the exiles and has tried to foster a more relaxed social and political climate to attract them back. In a speech to mark the Persian New Year in March, he urged those who had left "for no reason" to return. Their managerial skills are needed and their gradual return helps create the more stable business climate needed to encourage greater private sector investment, another key Rafsanjani policy.

Last October the government announced that state-owned factories would be put up for sale. But no privatisations have taken place and business reaction is likely to be cautious even if they do. "In theory, it is a great idea," said one businessman. "But you always run the risk of the government changing its mind and deciding to interfere."

Other measures aimed at boosting productivity include the sale of foreign currency at a competitive rate to state industries for their imports of raw materials. Officially one US dollar buys 70 rials, but the competitive rate of Rs800 is closer to the free market rate of Rs1,300.

Rafsanjani: encouraged return of Iranian exiles

Mr Hadi Nezhad Hosseinian, the Minister of Heavy Industries, believes that the discrepancy between exchange rates lies at the root of Iran's industrial problems, and encourages corruption in the distribution system.

He cited as an example of the inefficiency and corruption of the system the fact that a domestically-produced car priced at Rs710,000 (£6,000) represented a loss of Rs700,000 for the Saipa company which assembled it, but that after delivery it could be sold on the free market for Rs7m (£59,000).

President Rafsanjani has also acknowledged that corruption is hindering the government's plans to revitalise the industrial sector. Asked last month why the Central Bank had not disbursed foreign exchange to industry at the competitive rate promised, he replied: "The exporters did not return any of their foreign profits to the Central Bank and the Bank thus refused to give them any more."

If this policy is not proving successful, the government appears to have fared better in attracting back to the country an increasing number of those living abroad. Present estimates indicate that 15 per cent of exiles have returned, though this includes Iranians denied refugee status abroad.

Of those who return freely, the case of Reza is not untypical. He returned to Iran recently for the first time in almost a decade to reclaim his print equipment factory. It had been managed by the government but had not been confiscated.

After a lengthy interview at the Revolutionary Court, he was asked whether he had paid Islamic dues (*khoms* and *zakat*). "I had no problems," said Reza. "I had always paid Islamic tax and I even had receipts. Not only were the authorities extremely well organised, they were also very courteous."

But others speak of having to grease palms. Generous "donations" to government institutions are one way out. In one case a businessman donated 80 per cent of his industrial holdings amounting to Rs20bn (£164 million at the official exchange rate) to the Martyrs Foundation.

Many of those returning for the first time since the revolution are surprised by their reception. One woman affirmed nervously to one of the airport security police that she had lived abroad for over ten years. He leaned over and said, "You did the right thing."

OVERSEAS NEWS

First increase for 13 months

Japanese current account surplus widens to $8.1bn

By Robert Thomson in Tokyo

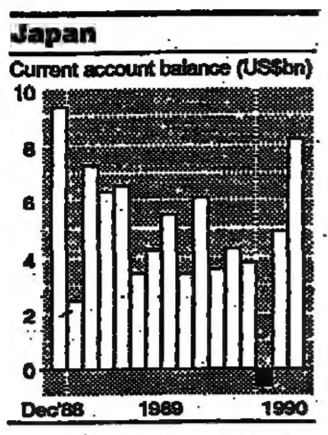
JAPAN'S current account surplus widened during March for the first time in more than a year as the yen's weakness slowed import growth and disrupted the adjustment of the politically-sensitive trade surplus.

The current account surplus in March was $8.1bn (£4.93bn) up from $6.3bn a year earlier, the first increase of its kind in 13 months, while exports increased 3.5 per cent month-on-month to $23.6bn and imports rose by 1.9 per cent to $17.2bn.

Balance of payments figures released by the Finance Ministry yesterday showed that the turbulence in Japanese financial markets and end of fiscal year window-dressing by Japanese investors resulted in a significant turnaround in foreign securities holdings.

Net sales of foreign bonds by Japanese for March were $1.75bn while net sales of stocks were $257m, compared to net purchases of bonds of $3.69bn and of stocks of $2.47bn in February.

Meanwhile, foreigners' net sales of Japanese stocks were $7.2bn compared to $2.3bn in February, as the continuing fall of the Tokyo market prompted investors to reduce holdings.



The balance of payments for the month showed a deficit of $757m, compared to a surplus of $16bn a year earlier, partly because of a larger deficit in the long-term capital account. For fiscal 1989, the trade surplus was $70.18bn, down $25bn from the previous year, while the current account surplus was $53.5bn, a fall of $23.78bn from fiscal 1988.

The increase in the trade surplus for March is partly explained by a relative rush of imports in March 1989 in expectation of a national consumption tax, introduced in April last year, but the weakness of the yen in recent months has clearly slowed the adjustment of the trade surplus.

Mr Kenneth Courtis, chief economist at DB Capital Markets, said that Japanese products are 30 per cent cheaper in the US and 35 per cent cheaper in Western European markets than a year earlier, while imported products are that much more expensive in Japan.

"The improvement in the trade surplus probably bottomed out in the fourth quarter of 1989. In yen terms, exports are being expanded.

"This has to be a topic of conversation for the Group of Seven countries," Mr Courtis said.

During March, Japan's net invisible trade was $1.08bn, the first surplus since April 1986, according to Ms Chiharu Sumita, of UBS Phillips & Drew. Interest payment inflow was $4.4bn, up from $2.7bn in February and from $2.6bn a year earlier.

Taipei stock market gamblers come to grief

The bursting of Taiwan's bubble will please foreign investors, writes Peter Wickenden

A HEADLINE in a Taiwanese newspaper last week got it the wrong way round when it said: "Taiwan's money supply follows Taiex down." For the central bank's tight credit policy and an ever-increasing flow of funds offshore resulted in the biggest monthly fall in money supply growth in March, and this is seen as the main cause of an unprecedented plunge in the island's lunatic liquidity-driven bourse.

From its record high of 12,682 in mid-February, the weighted index has now declined to 8,574. On Tuesday it plunged 557 points or 6 per cent, the second largest one-day fall in its 28-year history, on rumours of further political instability.

The same reason was cited by analysts for a further 160-point drop yesterday, when news spread that former military strongman General Hau Pei-tsun might be appointed Taiwan's premier.

According to central bank figures, Taiwan's M1B money supply growth fell to an annual rate of 1.1 per cent in March, a sharp drop from February's 8.7 per cent. (M1B comprises cash in circulation, passbook savings and current accounts.)

After the traditional mushrooming of the money supply over Chinese New Year in early February, when the stock market staged a spectacular bull-run, the central bank reapplied tough credit-tightening measures in an effort to keep the lid on inflation. This seems to have been successful, as the consumer price index grew by only 2.8 per cent in February, down from January's 3.9 per cent and the smallest rise in a year.

The squeeze on credit has had two side-effects; thousands of small- and medium- sized companies that needed loans for legitimate purposes have been complaining bitterly, and thousands more that used loans purely for short-term stock speculation have pulled their funds out of the market. The money has been put back in the banks or converted into foreign currency in expectation of a brief depreciation of the Taiwan dollar.

The volume of cash flowing offshore so far this year has been huge, and is expected to go on increasing as political in-fighting in the government continues and companies speed up plans for offshore investments. The government approved nearly 80 investment projects worth $228m in the first quarter, a six-fold increase over the same period last year. But to avoid taxation, most companies do not seek government approval, and the real volume is widely thought to be seven to 10 times higher than the official figures suggest.

Analysts say that another major cause of the loss of liquidity and the draining of funds from the stock market has been the sale of the central government's shares in the three main commercial banks. The issue has been more than 100 times oversubscribed, although the prices of shares already on the market have now dropped below the offer price. If the issue goes ahead and flops, there may well be a surge of stacked-up cash back into the market. Meanwhile there has been brisk grey-market trading in the shares of several new private banks that do not yet even exist officially.

Grey market financial dealings are thought to account for up to a third of


Investors' glee at a seemingly ever rising market has turned sour

Taiwan's GNP, and it is the impending collapse of the Homey Group, the biggest underground investment racket of all, that has delivered the hardest psychological blow to stock market investors. Homey admitted late last year that its pyramid scheme, by which several hundred thousand investors were paid interest at nearly 50 per cent a year, was in trouble. It was by far the largest single player in the stock market until December, when it pulled out almost completely after the introduction of a new stock tax designed to dampen speculation. This tax, and the old capital gains tax that it replaced, brought unexpectedly large revenues to the government and made wanton speculation more expensive.

The feeling that now prevails among Taiwan's 3m unsophisticated small-time investors is one of sheer bewilderment. It all used to be so simple – and safe – just do today what Homey did in the market yesterday.

Homey and other large players ramped up share prices to their 7 per cent fluctuation limit, and the small fry followed, taking windfall profits sector by sector. The news that Homey 's management may be sent for trial as gangsters, along with the boss of the Fortune Group, another major unlicensed investment empire, sent further shudders through the market in mid-April.

The extent to which stock market profits have been an engine of the economy is obvious and alarming. Department stores, coffee shops, restaurants and expensive nightclubs are suddenly half empty.

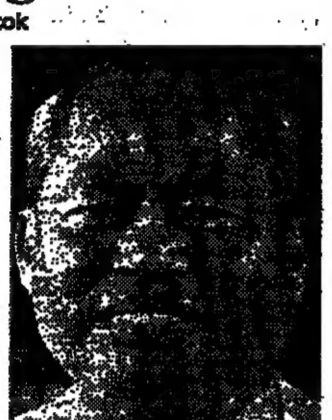
However, the government, and some foreign securities analysts are glad to see the speculative frenzy of the last two years finally fizzle. Officials say that there has already been a slight easing of the chronic labour shortage in manufacturing industry as full-time gamblers go back to work. And foreigners are even daring to hope that a prolonged slump in the market and a period of relative stability might bring forward the day when direct foreign investment is allowed.

Thai cabinet shies away from imposing VAT

By Roger Matthews in Bangkok

THE government of Thailand has backed away from contentious plans to introduce a value added tax. At yesterday's cabinet meeting, called to discuss the results of a three-year study and proposals by the Finance Ministry, the only decision ministers could reach was to postpone consideration of the issue.

The failure to agree on VAT is a blow to Mr Pramual Sabhavasu, the Minister of Finance, who had staked a great deal of his remaining political capital on a favourable cabinet decision. It will also serve to reinforce the impression that political rivalries within the ruling coalition are seriously handicapping the government's capacity to undertake urgently needed projects and reforms.


Pramual: a tax blow

Already this year the government has virtually given up on its privatisation programme: has refused to grant banking licences to at least five foreign banks after they had agreed terms with the Finance Ministry: and has tolerated continued vacillations over the urgently needed $1.6bn mass transport railway system for Bangkok.

The main virtues of the proposed single 10 per cent VAT rate was that it would simplify collection procedures, encourage demands for receipts and therefore accuracy in accounting, while making tax evasion more difficult. This was also seen as one of its political weaknesses, as the imposition of VAT could hit at the interests of powerful business groups.

The Finance Ministry and the Revenue Department had prepared the ground carefully, visited more than a dozen countries to study the application of VAT and sought to ensure that its wider benefits were fully understood in official circles in Bangkok. Nearly 1m leaflets have been printed, videos prepared, thousands of staff trained and computer budgets approved for the proposed launch of the VAT system early next year.

Opponents of the new tax had, however, been playing on the fears of politicians and allied business groups that VAT would limit tax avoidance possibilities and add to the heavy weight of bureaucracy in Thailand. And with opposition parties threatening to introduce a motion of no confidence in the government in the next parliamentary session, most ministers appear to have decided to limit the risk of additional controversy.

Australian inflation hits 8.6% a year

By Kevin Brown in Sydney

AUSTRALIA'S consumer price index rose by 1.7 per cent in the three months to March, raising the annualised inflation rate to 8.6 per cent, the Bureau of Statistics said yesterday. The first quarter figure was down from the 1.9 per cent increase registered in the three months to December, and in line with market expectations.

The announcement had little effect on the share market, which rose 1.5 per cent to close 22.3 points up at 1462.9. The Australian dollar was also stronger, closing at 75.2750 US cents, up from 74.6250 cents.

However, dealers warned that the markets were waiting for the release today of March current account figures for the balance of payments, which is expected to be between A$1.3bn and A$1.7bn in deficit, following a deficit of A$1.19bn in February.

Mr Paul Keating, the Treasurer (finance minister), said the government was determined to achieve a significant reduction in inflation in the next two years.

There would be no changes in monetary policy because the government had taken account of the outlook for inflation when it eased monetary policy after being returned to power in a March general election.

Mr Peter Reith, the opposition treasury spokesman, said the government's economic policies were leading to a return of stagflation – recession coupled with high inflation. Most economists said the annualised figure was likely to fall over the next few months, although Australian inflation would remain above the average of its trading partners.

$5bn top-up sought for Asian fund

By David Housego in New Delhi

Donor nations are expected to contribute $5-6bn to a new replenishment of the Asian Development Fund (ADF), the soft loan window of the Asian Development Bank.

This emerged in preliminary discussions that preceded yesterday's opening of the annual meeting of the bank, a sister institution of the World Bank.

Industrialised country delegations decided to put off any decision on the size of a replenishment for ADF-6 which is due to begin next year until the next annual meeting of the bank in Vancouver. This would also rule on demands by India and China for access to the soft window.

The US in particular was against making fresh pledges to the ADF when it is still seeking Congressional approval for ADF-5 allocations and when the Fund has sufficient liquidity for its current operations. The $3.5bn current ADF replenishment is due to run out at the end of this year.

The figure of $5-6bn mentioned by some delegations would reflect an increase in line with inflation and allow nominal access for China and India to the Fund. The last three replenishments of IDA, the World Bank's soft lending arm, have maintained the volume of lending in real terms.

At yesterday's opening session Mr V.P.Singh, the Indian Prime Minister, pressed India's case for access saying the need of developing countries for development funds was very large – particularly when they opened up their economies.

US-EC farm talks turn positive

Bridget Bloom detects a subtle change in tone if not substance

LATE last week, European Community farm ministers finally agreed the package fixing the EC's farm prices for 1990-91. The lack of agreement had been seen as distracting the Community from getting down to the highly demanding business of making a success of the Uruguay Round of international trade negotiations within Gatt, where agriculture is one of the thorniest problems yet to be solved.

So will the Community now prove any readier to reform its costly and trade-distorting common agricultural policy than it has been in the three and a half years since the round began?

Certainly, some movement is badly needed. It is widely accepted that the round will make little progress unless some compromise can be found between the opposing positions of the US and the EC, since the former insists that all subsidies must go and the latter that some subsidies are an integral part of its farm policies.

The two sides have recently lambasted the other for taking or threatening action likely to doom the Uruguay Round to failure. Only last February, for example, Mr Ray MacSharry, the EC Agriculture Commissioner, accused Mr Clayton Yeutter, the US Agriculture Secretary, of playing "war games" after he published a "protectionist" draft US Farm Bill.

There are some signs that this adversarial relationship may be changing in tone and, just possibly, in substance. At meetings held between US and EC officials in Washington last week, it was agreed to set up fortnightly meetings to thrash out a framework for farm reform negotiations by July, as preparation for the final months of the round, which ends in December.

Mr Frans Andriessen,the EC's Foreign Affairs Commissioner, said the two sides had agreed "certain procedures" which should help in "narrowing the divergencies. . . between the US and the EC."

For his part, Mr Yeutter spoke of their agreement "to send some positive signals to the world of our determination to have a successful Uruguay Round. . . and a successful agricultural negotiation".

According to one EC Commission official, the US meeting had worked wonders. "The tone was completely different – much less confrontational," he said. "We found the Americans much more open than before."

So far, so good, but what might this add up to in practical terms? Both sides acknowledge that there are still profound differences over how far farm reform can or should go, even if there is now talk of compromise.

In Brussels last week, EC Commission officials outlined areas in which agreement might be reached, mirroring the approach of Mr Yeutter in a satellite interview with European journalists on April 9.

Mr Yeutter, in a noticeably upbeat exposé, highlighted the possibility of agreement on tariffication, the system the US espouses for converting import protection and non-tariff trade barriers into tariffs as a means of reducing them.

He also foresaw the possibility of ultimate agreement on a system favoured by the EC as a means of reducing domestic farm supports, known as Aggregate Measures of Support (AMS)

EC officials also see these as areas of compromise. On domestic supports, they assert that the US has already foregone its opening gambit of the "zero option" of complete elimination of all trade-distorting subsidies within 10 years. They thus believe that there can be meaningful negotiation on the reduction of domestic subsidies, probably via the AMS, and on the basis of the US-delineated "red", "orange" and "green light" subsidies (the latter being those which are held to be non-trade distorting and therefore allowable.

The question of how quickly subsidies should be reduced, and whether, for example, US deficiency payments would be included, would be among the tough problems to be settled. But they need not impede agreement, officials say.

Likewise on tariffication, which is aimed at reducing import protection. While the EC finds the US proposals too rigid and too all-embracing, with their fixed reductions and provision for safeguard clauses only to be applied on a case-by-case basis, officials say there is room for negotiation. "The difference is one of degree, it is not fundamental," was how one put it.

As for measures involving plant and animal health, which are often used as back-door trade protection, EC officials, like their US counterparts, see few problems.

The really tough issue, Brussels officials suggest, will be export subsidies, especially in the cereals sector. "The real object of the US is to reduce our capacity to export," said one official, acknowledging that the Community could not be competitive in cereals in a free-trade world.

Brussels is particularly worried about the inroads being made in the EC animal feeds market by cereal substitutes like manioc (cassava) or corn gluten feed, a by-product of the starch industry. The EC's proposals for "rebalancing" concessions made in one area with increased support in others – which the US opposes as being an attempt to emasculate the whole process of farm reform – is particularly relevant here. The Community would like to increase protection on cereal substitutes, for example, in return for concessions on lowering export subsidies on grains.

"This will be a matter for the last week or the last night – even the last minute," one Commission official said.

No one in Brussels minimises the problems facing the round, but they are no longer talking of failure to reach an agreement on farm reform either. That is certainly a change of tone, but only the next few months will show whether it is one of substance as well.

Dunkel welcomes US stance on Japan

By Peter Ungphakorn in Bangkok

MR ARTHUR DUNKEL, director-general of the General Agreement on Tariffs and Trade, has hailed the US decision not to impose immediate sanctions against Japan as a turning point for the Uruguay Round of trade negotiations.

He was speaking in Bangkok after talks on Tuesday with officials of the Association of South East Asian Nations in which he is said to have warned that failure to reach agreement in the round could be catastrophic.

Asean officials said Mr Dunkel told them that without a meaningful agreement trade wars would break out involving unilateral retaliatory action such as that prescribed by "Super 301" of the US Trade Act.

Mr Dunkel interpreted recent statements by Mrs Carla Hills, the US Trade Representative, as indication that Washington was genuinely giving priority to the round.

Meanwhile, differences have emerged within Asean about how its members should approach the question of special and differential treatment for developing countries.

Japanese file claims over late Soviet payments

By Robert Thomson in Tokyo

JAPANESE trading companies have begun lodging claims under the Government's export insurance scheme for late payment of debts by numerous corporations in the Soviet Union.

The Soviet companies have been unable to meet hard currency deadlines in recent months.

Under the scheme, Japanese companies are supposed to report late payment after two months if they want compensation but, until recently, they have given Soviet corporations extra time to repay debts in the interests of longer-term relationships.

The Japan Association for Trade with the Soviet Union and the Socialist Countries of Europe has estimated that overdue debts to Japanese companies are at least Y1.8bn (£6.92m), while companies report that late payment became common about six months ago and has been more serious since February.

Several of Japan's largest trading houses said they had begun notifying the Ministry of International Trade and Industry (Miti), which oversees the scheme. A Miti official denied a Japanese press report that the ministry had encouraged companies to lodge claims to put pressure on the Soviet Union and would not say if the insurance tariff was under review.

Mitsui & Co the trading house, said some payments were still made on schedule and that punctuality "depends on the items involved". He said: "The difference now is that we might claim insurance in some cases".

Companies are agreed that if Miti downgrades the rating of the Soviet Union, the cost of doing business will rise and the incentive fall slightly. Mitsubishi, the largest trading house, said Miti had requested that the company provide a list of late payments, which has grown since "the middle of last year".

"We have not yet had a case of a payment being refused. The longest delay we have had is six months," Mitsubishi said.

C. Itoh & Co said the company was "having some problems" with late payments but this would not necessarily affect long-term business planning.

China awards grain silo contract in Y3.6bn deal

THREE Japanese companies have won a Y3.6bn (£13.8m) contract to build a grain silo and loading bays in China, agencies report from Tokyo.

The companies will begin work on the project as soon as they get final approval from the Chinese and Japanese governments, Kanematsu-Gosho, a general trading company, said yesterday.

The contract will be the first big project carried out by Japanese companies in China since the military suppression of pro-democracy demonstrators in Peking last June.

It is to be financed by a Japanese government loan.

Kanematsu, Hitachi Metals and Hitachi Plant Engineering & Construction expect to complete the work by the second half of 1993.

Kanematsu said the Chinese Government called for bids in April 1989 but progress was delayed by the military crackdown. A final agreement was reached only recently.

Hitachi Metals will handle the construction of the 70,000 tonne-capacity silo – one of China's largest – at Lianyungang in Jiangsu province, and conveyor facilities. Hitachi Plant will construct the loading facilities.

UK train maker in link with Czechoslovakia

BREL, the British railway train maker privatised last year, has signed a co-operation agreement with CKD Tatra of Czechoslovakia, the world's largest manufacturer of trams and light rail vehicles, writes Richard Tomkins, Transport Correspondent.

It sees the deal as an opportunity to expand its markets following recent east European reforms.

BREL, owned 20 per cent by its employees, 40 per cent by Trafalgar House and 40 per cent by Asea Brown Boveri, is one of Europe's biggest makers of rail vehicles, specialising in multiple unit trains and metro cars.

Most of its output goes to British Rail and London Underground. It recently won an order worth over £300m to supply 680 cars for use on London's Central Line.

The Prague-based CKD Tatra is part of Czechoslovakia's state-owned engineering industry and supplies virtually all light rail vehicles and trams required by Comecon, the Soviet-dominated eastern trading bloc. BREL hopes the deal with CKD will open the door to co-operation on manufacturing and marketing, increasing its share of the overall rail vehicle market in the UK as well as overseas.

Mexico blocks Latin American integration plan

TALKS to devise an economic integration scheme for Latin America hit a snag this week when Mexico failed to back a plan to expand the region's preferential tariff programme, participants said, Reuter reports from Mexico City.

Delegates to the Latin American Association for Integration (Aladi) adjourned their two-day meeting without a concrete proposal for regional co-operation.

On Monday, Mr Domingo Cavallo, the Argentine Foreign Minister, said that his country, as well as Brazil, Colombia, Chile and Uruguay, would propose a 50 per cent reduction in tariff levels and a 10 per cent increase in the list of goods covered.

Delegates complained that Mexico was pursuing its own agenda.

"Due to its geopolitical position, Mexico thinks it best to dedicate major efforts to increase its commercial interchange with the developed world, in particular with the US," said another delegate "For Mexico, integration with the poor countries generates poverty," he said.

Aladi officials hope Mexico will participate but Mr Jorge Ordonez, the organisation's secretary-general, said the group could not wait forever.

Taiwan opens up tenders to E Europe

TAIWAN will open its government tender market to five east European countries, the Economics Ministry said, Reuter reports from Taipei.

Mr Chiang Ping-kun, vice Economics Minister said Czechoslovakia, Yugoslavia, Hungary, Romania and Poland would now be eligible to tender for Taiwan's government and public enterprise purchases, worth $3-$4bn annually.

The countries are all members of the General Agreement on Tariffs and Trade. Taiwan is applying for Gatt membership and a ministry official said Taipei was trying to win allies among the 96 member states.

Procurement tenders would remain closed to the Soviet Union, Albania, East Germany and Bulgaria, the official said.

"The new move reflects a step forward in our policy to liberalise our market and it will help boost our trade with these countries," he said. The Economics Ministry will submit its proposal in the next two weeks to the cabinet for final approval.

Taiwan currently limits procurement tenders to north America, western European countries, along with South Korea, Singapore, Australia and New Zealand. It bans Japan because of Taipei's huge trade deficit with Tokyo. The deficit jumped to a record high of almost $7bn in 1989 from $6.06bn in 1988.

Ministry officials said annual procurements included contracts for passenger and cargo aircrafts, precision tools, computers, telecommunications equipment, anti-pollution devices, buses, power equipment and machinery. They predicted that Taiwan's procurements, particularly for anti-pollution equipment, would rise substantially in the next few years.

"Taiwan is a lucrative market for foreign suppliers and we believe East European countries can offer competitive prices due to their cheap labour and costs," one official said.

Total customs-cleared trade between Taiwan and the Soviet Union and eight east European countries was $361m last year, according to the Board of Foreign Trade. Trade officials forecast that the value will rise to about $500m this year.

Conservatives snipe at Bush over Lithuania

By Peter Riddell, US Editor, in Washington

PRESIDENT George Bush faces growing public criticism over the Lithuanian independence crisis, mainly from conservative Republicans, but also from some Democrats.

His handling of this issue has brought to the surface wider unease among conservatives about the President's support for President Mikhail Gorbachev, his desire to keep open high-level contacts with the Chinese authorities, his unwillingness to take a public stand on such social issues as abortion, and about what they see as his appeasement of the environmentalists over clean air legislation.

Until now, most conservatives have been willing to give Mr Bush the benefit of the doubt because of his willingness to consult them frequently, his high opinion poll ratings, the prominent role of Mr John Sununu, the conservative White House Chief of Staff, and the President's resistance to raising taxes.

While congressional leaders of both parties have supported Mr Bush's refusal to introduce sanctions against Moscow over Lithuania, conservatives, including such widely-read newspaper columnists as Mr William Safire, have been uneasy. In particular, many are concerned that the sanctions decision was followed within two days by a provisional trade deal with Moscow which promised the Soviet Union access to the US market. Nine Republican senators unusually went public in calling for the trade deal to be shelved from the agenda of the Bush/Gorbachev summit at the end of the month.

Senator Gordon Humphrey said his patience ran out over Lithuania and that the trade deal was "callous and unfeeling in the extreme". However, Mr Humphrey will retire early next year. More significant was the suggestion by Senator Robert Dole, Republican minority leader, that he might "slow walk" the deal through Congress, arguing this was not the time to do the Kremlin any favours, or for business as usual.

Late on Tuesday, the Senate approved by 73 votes to 24 a non-binding resolution urging Mr Bush to postpone the grant of most favoured nation trade status to the Soviet Union until Moscow has lifted its economic blockade of Lithuania and started negotiations with Vilnius. This suggests that the required legislation may face a long, tough passage in the Senate.

Mr Bush has responded to some of these concerns by agreeing to the first formal, public contact with a member of the Vilnius government when he sees Mrs Kazimiera Prunskiene, Lithuanian Prime Minister, at the White House today. However, the White House has stressed that Mr Bush wants an authoritative first-hand report on the situation and is seeing Mrs Prunskiene as a freely elected representative of the Lithuanian people, rather than as prime minister of an independent Lithuania.

Apart from the trade agreement, there is little the conservatives can do except complain. Mr Bush is the only president they have and, on present form, is certain to be renominated with little trouble in 1992.

But the change in public view among conservatives, if sustained, could create embarrassment and hurdles, if not insurmountable barriers, in Congress.

The outspoken Mr Howard Phillips of Conservative Caucus has argued that Lithuania is the defining moment of the Bush administration: "More and more conservatives are talking about it as the Nelson Rockefeller administration that never was" – a reference to the late vice-president in the Ford administration of the mid-1970s, who was a hated symbol of traditional Republicanism for many conservatives during the 1960s and 1970s. Some members of the Bush team, though, might regard the jibe as a compliment.

S&L rescue hits more cost trouble

By Peter Riddell in Washington

THE rescue of the financially troubled US savings and loan industry has run into further controversy, as the White House has admitted concern over a further rise in the cost and has confirmed that it is looking for a new head of the operation.

Mr William Seidman is chairman of the Federal Deposit Insurance Corporation, which is responsible both for insuring commercial banks and for the Resolution Trust Corporation which handles the savings and loan rescue.

Aged 69, he has said he wants to leave before the expiry of his term next year. The White House has not tried to dissuade him and is discussing a successor.

However, Congressional Democrats have urged President George Bush to retain Mr Seidman.

Mr Seidman has criticised interference by the Treasury in the details of the rescue.

His likely departure comes at a time when there is growing concern that the cost to US taxpayers of the rescue will be substantially more than previously estimated, largely because of the level of interest rates and property prices.

Congress moves closer to talks on budget

THE US Congress has moved nearer negotiations with the White House over a deficit-reducing budget package for fiscal 1991 starting this October, writes Peter Riddell in Washington.

This is certain to be very different from the proposals outlined by President George Bush in late January.

The Senate Budget Committee yesterday adopted by 14 votes to seven a plan which would cut the deficit by \$43bn down to below the \$64bn Gramm-Rudman deficit reduction target for fiscal 1991. Late on Tuesday, the House of Representatives approved by 218 votes to 208 a Democratic plan to cut the deficit by \$35.5bn.

Both versions have lower defence and higher domestic spending than the Administration proposed. They are intended as opening positions in the talks between Congress and the White House.

However, the Administration itself now estimates that a deficit reduction package of at least \$45bn, and possibly much more, is needed to meet the target because of slower economic growth during the winter and higher than forecast interest rates.

The House version sets defence spending authorisations, including commitments for future years, at \$283bn, or nearly \$24bn less than sought by the White House, with projected spending outlays of just over \$295bn, more than \$8bn lower than the Administration proposed. The Senate committee version proposes defence spending of nearly \$10bn less than the Bush budget.

At the last minute House Republicans did not even offer the Bush budget for a vote because it had been overtaken by changes in both the economy and world politics. A leading Republican said: "We would get to our negotiations more quickly if we did not offer the Bush budget." But they disagree with the Democratic plan because it cuts defence excessively.

In the Senate, Republicans argued that the committee package was unrealistic, particularly in its approach to defence and was not going to be implemented.

On paper, the House version seeks to cut \$35.5bn, though Mr Leon Panetta, chairman of the House Budget Committee, has estimated "hard savings" at no more than \$26bn to \$27bn, with \$9bn unexplained and \$13.9bn in additional revenue still in dispute.

The Senate version combines cuts in defence, an additional \$13.9bn in taxes, \$6.2bn in user fees, cuts in entitlement social programmes of \$5.6bn and cuts in other domestic programmes and foreign aid of \$3.5bn. An associated plan for an amnesty on back taxes and intensified enforcement efforts is projected to raise a further \$11bn to increase total savings to \$54bn.

Costa Rica and banks line up Brady-style debt deal

By Stephen Fidler, Euromarkets Correspondent

COSTA RICA and foreign bank creditors are set to begin signing on Saturday an agreement which will reduce the country's bank debt service bill by almost three-quarters.

The agreement will become the third comprehensive package to have been completed under the debt reduction initiative launched last year by Mr Nicholas Brady, US Treasury Secretary, when the pact becomes effective on May 21.

The initiative envisaged the use of official resources, mainly from the International Monetary Fund and World Bank, to finance a reduction in the bank debt of middle-income countries agreeing to economic reform.

Signature of the agreement by the government and by seven banks (led by Bank of America) which sit on the country's bank advisory committee, will start in the Costa Rican capital San José.

The remaining 200 banks will begin to sign in New York next week.

The agreement is expected to reduce the country's annual debt service bill from about \$150m annually to about \$40m, according to bankers. Costa Rica has only been partially servicing its debt to banks since 1986, building up arrears of more than \$325m.

The agreement contains no request for banks to make new loans to the country – a factor which was expected to make agreement easier.

Banks representing only 2 per cent of the \$1.5bn in bank debt have not entered the agreement. High participation among banks has marked the three Brady agreements so far completed.

Banks representing some 65 per cent of the total debt opted to sell their debt back to the country at 16 per cent of face value.

Banks holding about 17 per cent of the total debt agreed to convert more than 60 per cent of their exposure into low-interest bonds with a 6¼ per cent annual coupon, a 20-year maturity and an 18-month rolling guarantee on interest payments.

These banks also swap their overdue interest into 15-year floating rate bonds with a three-year rolling guarantee of interest.

Banks representing a remaining 18 per cent of the total debt opted to convert less than 60 per cent of their exposure and their back interest into bonds which carry longer maturities and no interest guarantees.

The fear of establishing a precedent of a debt reduction agreement with a country in arrears to banks delayed completion of the deal.

A 20 per cent down payment on the overdue interest was included in the agreement, in what bankers said was an attempt to discourage arrears elsewhere.

Mexico and the Philippines have already completed Brady-type agreements; Venezuela and Morocco have outlined agreements with bank creditors. Chile has used official resources under the Brady plan for a modest debt buy-back.

Congressional testimony by Milken likely

By Roderick Oram in New York

MR MICHAEL Milken is likely to begin testifying to Congress as early as July about the junk bond market he pioneered and the business dealings which led him last week to plead guilty to six felonies and to pay \$600m in penalties.

His appearance would be required by a subpoena which a House of Representatives sub-committee voted unanimously to issue. The panel, chaired by Mr John Dingell, a Michigan Democrat and frequent critic of Wall Street, also agreed to offer Mr Milken immunity from further prosecution in return for his testimony.

Mr Milken would testify if he was guaranteed none of his evidence could be used against him in state or federal court, one of his spokesmen indicated last week.

The House Energy and Commerce Committee, also chaired by Mr Dingell, has to approve the sub-committee's resolution, but no hitch is expected.

The investigations sub-committee is likely to ask Mr Milken about his relationship with savings and loan associations – some of his biggest customers. The financial health of many of these has been severely impaired by junk bonds.

It will also ask Mr Milken about the 400 or so investment partnerships that included him and fellow employees of Drexel Burnham Lambert, the now defunct Wall Street firm.

Indicators show recovery

By Anthony Harris in Washington

THE official index of leading indicators and the rate of ordering from US factories recovered strongly in March, matching their end-1989 levels after a sharp fall at the beginning of the year.

The index of leading economic indicators rose 0.9 per cent, and factory orders in March rose 3.8 per cent. Both figures were well above market expectations (of 0.7 and 3.1 per cent respectively), but both were heavily influenced by the 63 per cent jump in aircraft orders in the month. This is regarded as an aberration, and there was no market response.

Smaller contributions to the rise in the leading indicators came from initial state jobless claims, new orders for consumer goods, vendor performance, plant and equipment orders, sensitive materials prices and stock prices. However, growing signs of a construction downturn were negative influences.

The rise in factory orders was 1 per cent if aircraft and cars are excluded to give a better measure of the trend. Since the end of 1989 the total is virtually unchanged, but durable goods orders are down about 2.5 per cent, and non-durables up by the same amount.

Inventories fell 0.3 per cent for the second successive month, which suggests that the correction, mainly in the motor industry, may now be complete. Order books rose 0.7 per cent.

Brazil seeking price freeze this month

By John Barham in São Paulo

MS ZELIA Cardoso de Mello, Brazil's Economy Minister, said yesterday that key retail prices will remain frozen this month.

However, despite significant rises in independent and official price indices in April, the government has already stated that wages paid in May will not receive cost of living adjustments. This is because, it says, inflation has fallen to zero, following the adoption of its tough economic policies on March 16.

Under the new radical anti-inflation policies, prices and incomes are subject to government-decreed ceilings.

Manley asks for Caribbean aid to stay

By Canute James in Kingston

MR MICHAEL Manley, Jamaica's Prime Minister, will tell President George Bush today that he and other Caribbean leaders are concerned at the possibility that aid promised to the region will be diverted to support eastern European countries and the new governments in Nicaragua and Panama.

Several other Caribbean prime ministers have recently complained that levels of official aid were being reduced at a time when many countries, struggling to meet their debt obligations, had implemented programmes to restructure their economies.

Volatile profits predicted for new power companies

By David Thomas, Resources Editor

NATIONAL POWER and PowerGen, the two new electricity generators, will have more volatile profits than the 12 companies now supplying the UK, the first large-scale City seminar on electricity privatisation will be told today.

Representatives of almost 100 City institutions will be briefed by James Capel, the Government's broker for electricity privatisation, on the sale which is due to begin in November with the flotation of the 12 area companies.

James Capel will today also publish the most substantial analysis yet of the prospects for the industry as it heads for privatisation in a 95-page report, which has been seen in draft by the Department of Energy.

The position of the 12 area companies is cushioned because more than 90 per cent of their profits will come from their monopoly over local distribution networks, James Capel has concluded.

Area companies with large percentages of domestic customers are likely to enjoy higher profit margins than those more reliant on industrial customers, the James Capel report shows.

The Government, however, has compensated for this – and for the varying needs of the companies for capital investment – by setting a regulatory regime which will allow the more vulnerable companies to raise their prices more rapidly.

By contrast with the area companies, "the profits of the generators are likely to be more volatile," James Capel says.

The report stresses that the final supply of electricity to customers is a low margin activity. This suggests that the recent competitive scrabble between the new electricity companies to sign up large industrial customers may tail off once the new electricity market is established.

James Capel forecasts that the amount of electricity consumed will increase by 1.4 per cent a year over the decade, with growth stronger during the second half of the 1990s. This compares with 1 per cent during the whole of the 1980s and 2.5 per cent during the past five years.

Ministers prepare for poll losses

By Michael Cassell

MINISTERS are preparing for widespread Conservative Party losses to Labour in today's local elections but are hoping the Tories can retain control of their "flagship" councils and help turn the tide of opposition to the poll tax.

With all parties cautious about predicting the outcome of today's contest for the 5,200 council seats at stake, Mr Kenneth Baker, the Conservative Party chairman, said the government aimed "to hold what it has" and would make significant gains in some areas.

Mr Baker, who said the poll tax – the new tax to pay for local services – is "here to stay", claimed his party had successfully persuaded many voters that Labour-ruled councils were to blame for high bills.

Mr Jack Cunningham, Labour's campaign co-ordinator, repeated claims that his party would be delighted with net gains of around 200. He said Labour had a "pretty good chance" of victory in Wandsworth.

Conservative victories in the "flagship" councils such as Westminster and Wandsworth in London would prove disappointing for Labour, even though it would not normally have expected to win

Political parties undergo a local 'acid test'

The controversial poll tax will dominate today's elections, writes Richard Evans

RARELY in Britain's recent political history have politicians taken as intense an interest in local elections as in today's polls throughout England, Scotland and Wales. The results could provide an acid test of the opposition Labour party's chances of winning the next general election.

If the results are as gloomy for the government as recent opinion polls suggest, Tory MPs may round on Mrs Thatcher's leadership in desperation in the summer.

The poll tax which replaces domestic rates, is the dominant issue. Tory strategists have campaigned on its perceived advantages, so a harsh electoral verdict today will put pressure on the Government for its withdrawal or reform.

According to opinion polls, turnout will be much higher than the usual 40 per cent or so because lethargic voters are likely to be galvanised by the controversial tax.

Labour is deliberately playing down for two reasons forecasts that it could take control of a fresh swathe of councils across the country.

First, apart from Greater London and the Scottish regions where all the seats are being contested, only one-third of seats in 36 English metropolitan districts, 114 English and five Welsh shire district councils are at stake, so the potential for big gains is simply not there. Moreover, Labour already controls 29 metropolitan districts compared with the Conservatives' two.

Second, the elections take place on a four-year cycle and were last held in 1986 when Labour did exceptionally well and the former Alliance parties reasonably well.

Many of the "easy" targets are already in Labour hands, therefore, so it must perform remarkably well to make substantial further gains.

The centre vote is also important since it will indicate the strength of the re-emergence of two party politics.

Labour strategists want the old Alliance vote to collapse so that the party becomes the only viable alternative to the Tories, but the Liberal Democrats have a habit of digging in deep at the local level, and could prove difficult to shift.

The Conservatives have not entered any round of local elections in such a weak position since Mrs Thatcher came to power over a decade ago.

If the Conservatives do well in critical seats like Wandsworth, Westminster and Bradford where the community charge has been set at low levels, the relief at Tory Central Office will be tangible.

Equally, the results in Labour-held London boroughs like Haringey, Brent and Lambeth which have high poll taxes, will be pored over to assess whether the local authority is being blamed or the national government.

It is in London that the Conservatives will be at their most vulnerable. This is partly because the capital has a high proportion of marginal seats among its 32 boroughs, and partly because all the seats are at stake, making the chance of wholesale changes greater.

The biggest prizes are Wandsworth and Westminster because of their low poll tax levels and their aggressively Thatcherite leadership. Their loss would be a very great humiliation to Mrs Thatcher.

The Liberal Democrats face a practical difficulty since they are fighting only 3,100 of the 5,200 seats at stake, compared with the 4,500 candidates put up by the Alliance in 1986.

In Scotland, the Tories control none of the nine regional councils and the only outside prospect of recovering control is at Grampian which is ruled by a Liberal Democrat minority administration.

The Scottish National Party is expected to make some gains, partly at Labour's expense, but is not expected to capture any councils.

The Green Party is fielding 1,370 candidates in England and Wales, twice as many as ever before, but it is defending just three seats.

POINTERS ON THE PARTIES' PERFORMANCE

TORY PARTY will do well if it:
- loses fewer than 250 seats;
- retains any two out of Wandsworth, Westminster and Bradford;
- gains good support in Tory authorities with a low poll tax;
- recaptures Sutton from the Liberal Democrats

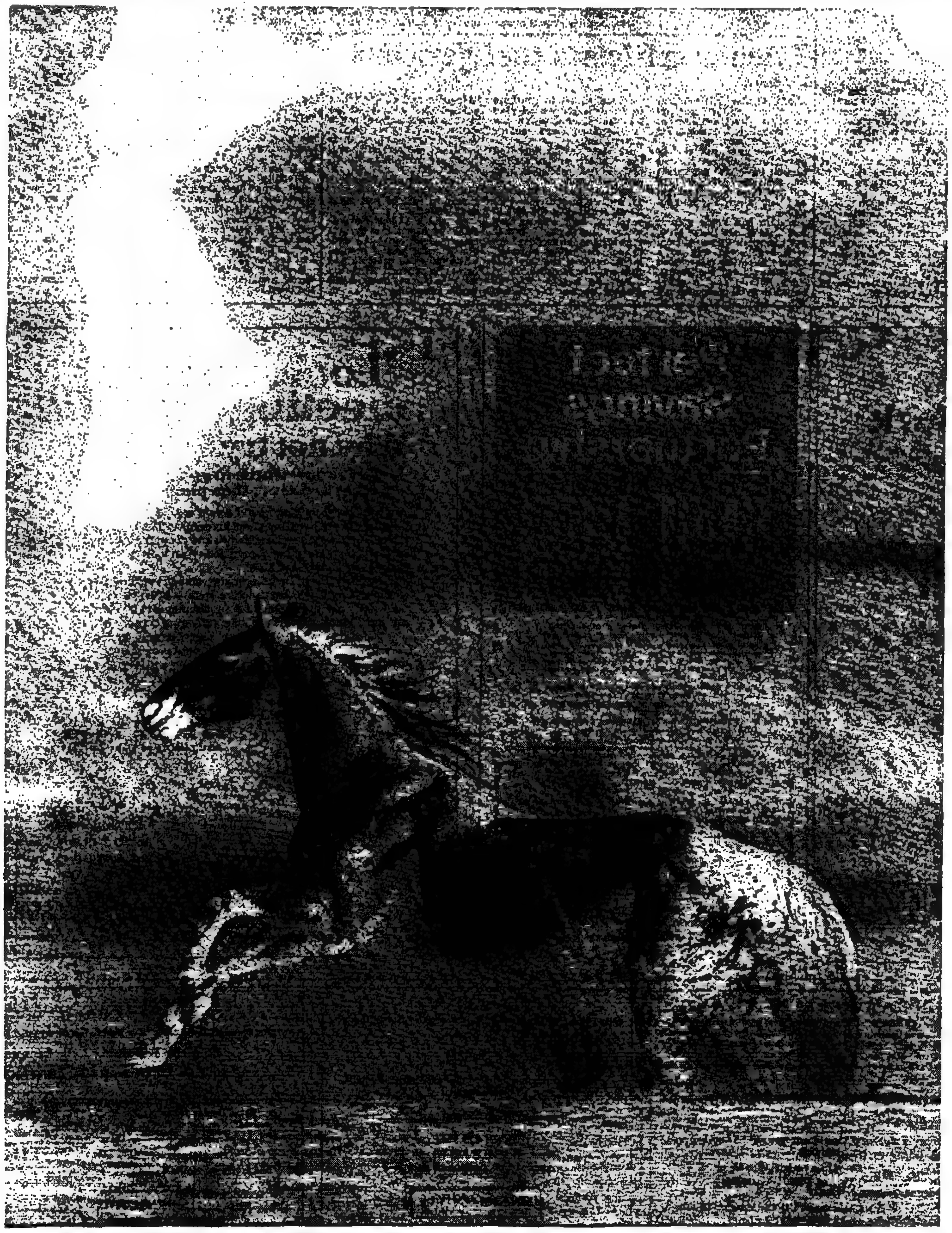
It will do badly if they:
- loses more than 500 seats;
- loses all three vanguard seats;
- finds no extra support in Tory authorities with a low poll tax.

LABOUR will do well if it:
- holds on to its 1986 gains and wins another 200 seats.
- captures Wandsworth, Westminster and Bradford and at least two of the London boroughs of Merton, Hillingdon and Enfield.
- does *not* lose many votes to the new Islamic Party of Britain in Bolton, Leicester and Bradford.

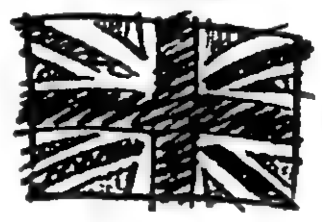
It will do badly if it:
- fails to take control of three London boroughs;
- loses control of Brent and Ealing;
- fails to recapture Tower Hamlets from the Liberal Democrats.

LIBERAL DEMOCRATS will do well if they:
- retain control at Eastleigh, Pendle and Sutton;
- gain seats at Cheltenham, Colchester, Southend and Winchester;
- poll more than 15 per cent of the popular vote.

They will do badly if they:
- lose control of any council, including Tower Hamlets, Sutton and Richmond and seven shire districts;



BRITAIN IN BRIEF



Reserves fall $98m in April

The Government intervened to prop up sterling less than the market expected last month, according to data released by the Treasury yesterday.

The UK's official reserves of gold and foreign currency fell by an underlying $98m in April, compared with a fall of $423m in March. Total reserves now stand at $38.03bn.

The consensus of market opinion was that $300m of reserves had been spent, and some brokers expected a drop of as much as $500m. But the news made little impression on the markets – sterling was slightly down on the day and gilts firmed only slightly on the news.

UK on course to join ERM

Lilley: welcomes ERM

Mr Peter Lilley, Financial Secretary to the Treasury, has given further assurance that Britain is on course for joining the exchange rate mechanism of the European Monetary System when the Finance Bill was given a second reading by a majority of 130.

He ignored a challenge by Mr Chris Smith, a Treasury spokesman for the opposition Labour Party, over apparent differences between Mr John Major, the Chancellor of the Exchequer, and Mr Robin Leigh-Pemberton, Governor of the Bank of England, on the issue.

Mr Smith claimed that the Chancellor had rejected the Governor's view that, apart from the present high level of inflation, Britain had already satisfied the conditions for entry laid down at the EC summit in Madrid.

Mr Lilley said the Government welcomed recent moves by Italy to abolish exchange controls, but there still remained conditions to be met, "notably a reduction of inflation in this country."

Security review in N Ireland

Northern Ireland's security chiefs are trying to pinpoint how terrorists managed to stage a booby trap bomb attack inside a County Antrim Territorial Army base yesterday, injuring several people.

The blast happened as a civilian mechanic was moving a military vehicle inside the base at Lisburn. He is being treated for serious leg injuries and several other people, including two young children, were treated for cuts.

Security forces in Northern Ireland are already on full alert following a warning from the Royal Ulster Constabulary last week that the IRA was intent on intensifying its shooting and bombing campaign.

Law firms 'discriminate'

City law firms are guilty of considerable unintentional discrimination against graduates from ethnic minority backgrounds, according to a report on recruitment to the solicitors' profession.

The report, funded by the Law Society and the Commission for Racial Equality, found that black ethnic minority candidates generally had to apply to a significantly larger number of firms for each invitation received for interview.

At interview, they were twice as likely to be asked seemingly irrelevant questions about family background. They were almost twice as likely as white candidates to receive more rejections than offers of training.

Tough action on hooligans

Britain has urged Italy to take tough action against British soccer hooligans during next month's World Cup football contest.

"What we have been saying to (Italy) is, 'If you take action against your own people, do the same against any British hooligan who causes you a problem'," said a spokesman for Mr Colin Moynihan, the Sports Minister.

Mr Moynihan travels to Italy next week for discussions with government officials on controlling violence at the games.

Budget fails to deliver

The Government's budget may fail to live up to its billing as a budget for savers, according to a survey of savings habits among the British published by National Westminster Bank yesterday.

Britons saved £142.60 on average in the first three months of the year. However, only 6 per cent of those questioned after the budget think they will save more as a direct result of the Chancellor's proposals, while 28 per cent said they will save less and 62 per cent will save about the same.

US fighter crashes

Pieces of an American F111-F jet fighter yesterday rained down on buildings piercing roofs as the crew of two ejected before the aircraft crashed on the east coast.

The jet, on a routine training mission, plunged into a wheat field near Binham, about three miles south of Blakeney Point, Norfolk, said police.

The pilot and weapons systems operator were taken to the hospital at their base, RAF Lakenheath in Suffolk.

UK NEWS

Nine remain in custody over Iraqi gun affair

By Jimmy Burns

NINE EXECUTIVES of British companies at the centre of the Iraqi gun controversy were under arrest yesterday after being held overnight by Customs officials at police stations in Sheffield and Birmingham.

A senior Customs and Excise officer is understood to have authorised a 12-hour extension for the arrest of the nine, who were not named, so last night they were approaching the maximum period for which they could be held without being charged, released or brought before a magistrate. However, a magistrate could grant a further 36-hour extension.

The two companies involved – Sheffield Forgemasters and Walter Somers – said they had not been informed by Customs officers that any of their executives had been arrested.

Sheffield Forgemasters said six executives of group companies had been asked to make statements on Tuesday and were continuing to do so yesterday accompanied by their solicitors.

Eagle Trust, the parent company of Walter Somers, said of its executives: "We have not been told that they have been arrested: all we've been told is that they are assisting with enquiries."

Customs officials said 16 people were held for questioning yesterday but some had later been released.

Customs and Excise have indicated that some of those arrested were likely to be charged today under the Export of Goods Control Order and the Customs and Excise Management Act, which governs the attempted export of prohibited goods. Engineers at Walter Somers now believe that equipment exported to Iraq may have been part of a hydraulic recoil mechanism for the "supergun" project.

The company earlier alerted the Department of Trade and Industry advising them of its deep suspicions. Sheffield Forgemasters maintains that the Iraqi order was for a petrochemical project, and that it had received DTI approval.

The Commons Trade and Industry Committee yesterday deferred until next week a decision on whether its investigation into the controversy should be suspended until the end of legal proceedings.

The main options facing the committee are postponing the inquiry or holding it in secret. Going ahead with the inquiry would be embarrassing for the Government, and the decision could well split MPs.

Race group calls for law on choice of education

By Alan Pike, Social Affairs Correspondent

THE COMMISSION for Racial Equality has written to Mr John MacGregor, Education Secretary, asking him to change the law to prevent parents selecting schools on racial grounds.

If Mr MacGregor refuses, a court confrontation between the commission – a statutory body – and the Government appears unavoidable.

Mr MacGregor has upheld a decision by Cleveland County Council to allow Ms Jenny Carney, a white mother, to transfer her daughter to a Middlesbrough school with fewer Asian pupils.

The council argued that its duty under the 1980 Education Act to accept parental preferences unless these interfered with the efficient use of resources, superseded the 1976 Race Relations Act. This says that the allocation of school places must not be discriminatory.

Commission officials have written to Mr MacGregor asking whether, since he is interpreting the law in the same way as the council, he is prepared to change it.

Unless he agrees, the commission is likely to seek a judicial review to establish the relative standing of the two pieces of legislation.

"It is for us an absolutely central issue and we would want to test it," said Mr Michael Day, the commission's chairman, yesterday.

The commission has also told ministers that the particular needs of ethnic minorities have been virtually ignored in the Government's white paper on the reform of the criminal justice system.

It is calling for a package of measures including the right to racially-mixed juries for all defendants.

A two-year research project by the Centre for Criminological Research at Oxford University, funded by the commission, is looking at how the criminal justice process affects different ethnic groups.

Ethnic minorities are heavily over-represented in the prison population.

Flying the flag for small European airlines

Paul Betts and Paul Abrahams talk to British Midland chairman, Michael Bishop

THE collapse this week of German Wings, the German airline which was seeking to compete against Lufthansa, was an eloquent example of the difficulties facing Europe's small independent operators against the might of the big national flag carriers.

"I won't let it happen to us," says Mr Michael Bishop, the chairman of British Midland Airways, outlining a broad range of initiatives his airline had taken to try to win a bigger share of the British air transport market both domestically and in Europe, as well as defending the interests of independent airlines in a more deregulated European airline environment.

In recent days, Mr Bishop has intensified his lobbying of UK government officials in Whitehall and MPs in Parliament, and sought support from the country's press. He has also taken his campaign to Brussels to win the European Commission to his cause.

Barely eight years after the demise of Sir Freddie Laker's airline, Mr Bishop suggested yesterday that there was now a growing risk of history repeating itself with the dominant European flag carriers trying to put smaller airlines out of business.

Both in London and Brussels, Mr Bishop has vigorously opposed BA's and KLM's plans to invest in a 20 per cent stake each in the new Belgian Sabena World Airlines and to establish a new European hub based in Brussels.

BMA claims the deal, now under investigation by the EC and the UK Mergers and Monopolies Commission (MMC), would seriously distort competition.

Mr Bishop held talks with Sir Leon Brittan, the EC competition commissioner, this week. Both the EC and the MMC are expected to reach a decision by the end of June.

Michael Bishop: lobbying hard for more competition

EC competition officials are concerned by the recent spate of partnerships and alliances between large carriers. They fear these pacts will make it difficult for small competitors to enter the market and risk pre-empting the EC's latest efforts to liberalise European air transport.

European governments are due to approve the second stage of European airline liberalisation next month.

Mr Bishop argued yesterday that alliances between dominant carriers were clearly uncompetitive but that investments by large airlines in smaller airlines could help strengthen the financial and competitive position of these second tier carriers as long as they remained independent.

He claimed this was the case of Scandinavian Airlines Systems' (SAS) 25 per cent investment in his own airline. He also suggested if BA or another large carrier had taken a stake in German Wings, the independent carrier would have had a good chance of competing against Lufthansa.

Mr Bishop is also opposing the cooperation agreement between Air France and Lufthansa and the Air France takeover of UTA, the independent French long distance airline, and Air Inter, the domestic French carrier.

However, he is worried that many European governments, especially France, are fundamentally opposed to the operations of smaller independent airlines favouring the concept of big national carrier.

Mr Bishop has also filed a complaint against Aer Lingus for uncompetitive practices.

But BMA's main battlefield is much closer to home. Mr Bishop, whose airline provides BA with most competition on domestic routes out of Heathrow, has complained that his company is finding it increasingly difficult to compete with BA.

Mr Bishop has long campaigned for more slots at Heathrow, although BMA has the second biggest position with 14 per cent of slots compared with BA's 38 per cent.

Mr Bishop claimed the national carrier was abusing its position on the scheduling committee at Heathrow airport, which allocates take-off and landing slots.

BA provides the committee's secretariat and holds the chairmanship. The committee's mainframe computer also happens to be in the same office as BA's fleet planning office.

The airline had used information from the committee's computer system to provide slots to increase the frequency of flights on its London to Glasgow routes, alleged Mr Bishop. This had let BA increase the frequency on this route from 10 to 14 last November.

However, BA had also suffered a fall in its passenger load factors of about 10 per cent to around 60 per cent. This increase in capacity without sufficient demand, he argued, represented predatory competition.

BMA had only been able to respond by increasing its own frequencies from eight to nine flights because of a shortage of slots. Despite this increase, BMA's share of the market had fallen to 25 per cent at the same time that its load factors had also declined. He admitted BMA's Glasgow operations were becoming marginal.

Mr Bishop has now asked for daily access to the slot scheduling computer at Heathrow.

BA, however, vigorously rejected Mr Bishop's tirade for greater competition. The airline claimed BMA was not seeking competition but protection from competition by substitution of themselves for BA and other UK airlines.

"We totally refute BMA's allegation of predatory behaviour on the Glasgow service. We do not control the Heathrow scheduling committee. The BMA are not as badly off for slots at Heathrow as they claim," BA fired off in a statement yesterday.

The war of words has only just begun.

ITV companies plan to buy own transmitters

By Raymond Snoddy

THE ITV companies are going to try to buy their own transmitters when Britain's Independent Broadcasting Authority transmission system is privatised next year in a deal that could be worth more than £100m.

The Independent Television Association, the trade organisation for the 16 commercial companies, is believed to have informed Price Waterhouse, the accountancy and management consultancy firm charged with selling the system, of its interest.

Virtually all the ITV broadcasters are publicly quoted companies which will have to operate in an increasingly commercial and competitive environment as a result of the Broadcasting Bill now going through Parliament.

So far more than 40 companies from Europe to the US and Japan have expressed interest in Transcom – the working title for the privatised system.

The Broadcasting Bill does not preclude a non-European Community company buying the entire UK commercial broadcasting transmitter system.

Labour criticises fuel deficit

By Alison Smith

BRITAIN had a trade deficit in fuel in 1989 and the first quarter of 1990, Mr Frank Dobson, the opposition spokesman for energy said yesterday.

Mr Dobson said previously unpublished figures showed that on top of the 6m tonnes coal equivalent deficit in 1989, the first three months of 1990 had left a deficit of 1.8m tonnes.

Britain had much greater fuel trade deficits in the 1970s, but last year's figures of 119m tonnes exported and 125m tonnes imported represented the first such deficit since 1981.

Mr Dobson said a sharp reduction in oil production last year looked set to continue into the next financial year because of shutdowns for maintenance and safety improvements.

Another factor was the import of low sulphur coal, in preference to expensive flue-gas desulphurisation.

Mr Dobson said most of the 49 British low-sulphur coal mines closed over the last 10 years had been because they were "uneconomic" rather than because the supplies were exhausted. Safety considerations made it unlikely that they could be reopened.

For the longer term, he doubted whether the UK had "adequate and good enough gas resources" to cope with the moves towards gas-fired power stations. Either power stations would import gas or their increased use of British-produced gas would force British Gas to import.

"Government recklessness has curtailed our self-sufficiency in fuel in just eight short years."

He said a Labour Government "might well take the grid company back into public ownership" with greater powers, while duties to promote and invest in energy efficiency might be imposed on the distribution companies.

More companies to lease sites at Canary Wharf

By Paul Cheeseright, Property Correspondent

THREE or four more companies will sign leases on space at Canary Wharf, the largest single commercial property project in the UK, Olympia & York said yesterday.

Olympia & York, the privately owned Canadian group, plans to build 10m square feet at the £4bn development in London Docklands and aims to establish a new commercial community complementary, in central London, to the West End and the City.

A wave of new leasing agreements would serve to dispel the belief in parts of the British property industry that Canary Wharf could turn out to be a white elephant and would suggest some faith that existing road and underground plans will relieve the transport difficulties of Docklands.

The expectation of more private sector clients comes against the background of speculation that the Government might put forward Canary Wharf as the site for the proposed European Bank for Reconstruction and Development, designed to channel western finance into eastern Europe.

BUSINESS LAW

Path is cleared for non-US issuers

By Marilyn Mooney

IN A MOVE which could revolutionise US capital markets, the Securities and Exchange Commission (SEC) has adopted Rule 144A, which allows, for the first time, immediate resale of certain privately placed securities to qualified institutional buyers. This rule paves the way for non-US issuers to offer securities in the US without the costs associated with SEC registration or with historically illiquid private placements.

The SEC also made two equally significant moves designed to enhance the attractiveness of US markets to non-US issuers. It approved what will be the first market trading system in the US for privately placed securities. Known as PORTAL (Private Offering, Resale and Trading Through Automated Linkages) and designed by the National Association of Securities Dealers, the automated system will facilitate primary placement and secondary trading for Rule 144A securities transactions in multi-currency settlements.

In addition, the SEC, in effect, reduced the holding period requirements of safe harbor under Rule 144 which have been in effect since 1972.

Under the amended rule, subsequent purchasers not affiliated with the issuer may combine or tack their holding periods of securities issued in private placements or resold under Rule 144A (including those of non-US issuers), in order to satisfy the two or three year holding period requirements of the rule.

This change will enhance liquidity by allowing restricted securities to reach the US public marketplace far earlier than previously permitted.

At the same time it adopted these changes, the SEC also adopted Regulation S, which clarifies when offshore offerings are not subject to US registration. Regulation S focuses on flowback into the US of securities issued abroad, whereas Rule 144A deals with resales of securities in the US.

Both Rule 144 and the new Rule 144A provide safe harbor relief from the registration requirements of section 5 of the Securities Act 1933 (Securities Act) for resales in the US of privately placed securities.

Unlike Rule 144, Rule 144A requires no holding period before resales can occur to qualified institutional buyers. Hence, the competitiveness and liquidity of the markets are enhanced, thereby lowering the cost of capital to issuers in the first instance.

The number of qualified institutional buyers is estimated to exceed 3,000. Except for registered broker-dealers, qualified institutional buyers must own and invest on a discretionary basis a minimum of $100m in securities of unaffiliated issuers. The threshold for registered broker-dealers is $10m. In the case of both domestic and foreign banks and savings and loan associations, an extra requirement that they have a net worth of $25m has also been imposed.

Although Rule 144A will lower capital raising costs in the US for non-US issuers, it has not exempted these issuers from the registration requirements of section 12 of the Securities Exchange Act 1934 (Exchange Act). Securities of a non-US issuer that are traded on a US securities exchange must be registered under section 12(b).

In addition, any class of equity securities of an issuer with total assets of more than $5m that are held of record by 500 or more persons (including PORTAL qualified investors), at least 300 of whom reside in the US, must be registered under section 12(g).

Non-US issuers who offer equity securities privately in the US as a result of Rule 144A will in time probably trigger the section 12(g) registration threshold. Because these securities will usually become freely tradable after three years pursuant to Rule 144, they will be able to be quickly resold to more than 500 persons. Many of these issuers will be exempt from Section 12(g), however, pursuant to Rule 12g3-2(b).

Accordingly, non-US issuers who have not already established the Rule 12g3-2(b) exemption should do so. The exemption is available for a non-US issuer as long as:

- it has not in the past 18 months had securities registered pursuant to section 12 or been subject to a reporting obligation under section 15(d);
- its securities were not issued in connection with the acquisition of another issuer that had issued securities in a US public offering or had section 12 registered securities;
- its securities are not quoted in an automated inter-dealer quotation system (ie, NASDAQ, but not PORTAL) or represented by American Depositary receipts so quoted except for certain securities that have been traded since 1983.

The Rule 12g3-2(b) exemption can be claimed and maintained by furnishing the SEC information of material interest to investors that is required to be, or voluntarily is, made public in the issuer's home jurisdiction. Thus, establishing the exemption is not onerous to non-US issuers.

Although Rule 144A's benefits are far-reaching, non-US issuers will need to consider some technical requirements when securities are privately placed in reliance on the exemption from registration under section 4(2) of the Securities Act or safe harbour Regulation D thereunder, so as to ensure that the new rule will be available for resales and that the cost of initial placement will thereby be reduced.

Use of Rule 144A is only available for certain securities and is conditional on the provision of specified information by certain issuers. In contrast to earlier proposals, Rule 144A, as finally adopted, contains no additional restrictions of non-reporting, non-US issuers.

Rule 144A is available only for "securities which are not of the same class" as securities listed on a US securities exchange or quoted in a US automated inter-dealer quotation system (which currently includes only NASDAQ, not PORTAL and not bid and ask quotations in the current "pink sheets" of the National Quotation Bureau, Inc).

Also included as part of the ineligible class are securities of an open-end investment company, a unit investment trust or a face amount certificate company that must be registered under the Investment Company Act.

Warrants that can be exercised for traded or quoted securities less than three years from the date of issue or at an exercise premium of less than 10 per cent are included in the same class as their underlying securities.

Moreover, securities underlying American Depositary Shares (ADS) are deemed to be of the same class where the ADS are traded or quoted securities. Other securities are generally considered to be in the same class if they are similar in character and rights and privileges. Debt securities are considered to be in the same class, for example, if their terms relating to interest rate, maturity, subordination, security, convertibility, call and redemption are similar.

Rule 144A requires that certain issuers supply specified information to purchasers on request at the time of resale. This arises only for issuers that do not have securities which are (1) registered under section 12 of the Exchange Act; (2) Rule 12g3-2(b) exempt, in the case of non-US issuers; or (3) eligible to be registered under Schedule B of the Securities Act, in the case of foreign governments.

It is unlikely that the informational requirement of Rule 144A will deter non-US issuers from launching offerings in the US based on the new rule. First, those potentially most likely to do so – the over 1,100 non-US issuers already Rule 12g3-2(b) exempt – will not be subject to this requirement. Further, non-US issuers can always voluntarily become Rule 12g3-2(b) exempt, even where they have not otherwise triggered the section 12(g) registration thresholds. Finally, the information required of those non-US issuers actually subject to this part of Rule 144A is expected to be relatively easy to provide.

The information required under Rule 144A would include a statement on the issuer's business; the issuer's most recent balance sheet and profit and loss and retained earnings statements; and similar financial statements for the two preceding fiscal years or for any shorter period the issuer has been in operation.

In adopting Rule 144A, the SEC was explicit in indicating that Rule 144A in its current form will be re-evaluated and refined over time. With the simultaneous adoption of Rule 144A, PORTAL and Regulation S, the SEC has firmly gone on record that internationalisation of the securities markets, including the US markets, is now under way.

The author is a partner in the Washington office of US lawyers Fulbright & Jaworski

MANAGEMENT: Marketing and Advertising

Death of an advertising name

Media buying under a new Aegis

Alice Rawsthorn on the restructuring of WCRS

On Tuesday one of the best known names in the London advertising industry will disappear when the WCRS Group rechristens itself the *Aegis Group*.

The change of name marks the end of the old WCRS Group's ambitions of becoming a force in the international marketing services industry. Only a few years ago WCRS, like so many other publicly quoted London agencies, made most of its money from advertising in the UK, but was determined to diversify into other disciplines and other countries.

Today the original advertising agency has been absorbed into EWDB, the international network controlled by Eurocom, the French marketing group. Aegis has retained a minority holding in EWDB, but has handed over managerial control to Eurocom.

For its part, Aegis will concentrate on Carat, the French media buying business which is now by far the largest part of its interests. The remaining activities comprise a headquarters staff of 15 and a handful of public relations and sports sponsorship subsidiaries.

The catalyst for the re-structuring of WCRS was the stock market crash in autumn 1987. Until then the company had made acquisition after acquisition supported by a sympathetic stock market. WCRS conformed perfectly to the City's clichés of an ambitious young agency. Its directors favoured flamboyant glasses and florid bow ties. They showered analysts with circulars oozing rhetoric about its embryonic "enterprise of entrepreneurs".

WCRS acquired agencies in the US and Australia and diversified into other disciplines. But it was still too small to compete against the established international advertising networks, like Saatchi & Saatchi and Young & Rubicam. It needed to make more acquisitions, but could no longer depend on paying for them with highly rated shares.

After the 1987 crash the environment changed, says Peter Scott, who was chief executive of WCRS and is now chairman and chief executive of Aegis, "and we had to change with it."

The few deals WCRS did after the crash – including buying 50 per cent of Carat – were paid for with debt. Last spring it decided that, as it could not expand all its interests, it should concentrate on one particular area of activity.

As the original WCRS agency was floundering – it had suffered a series of account losses and staff departures – it was decided to concentrate instead on media buying. Carat, which was founded by the Gross brothers, Gilbert and Francis, was the obvious vehicle. It already dominated the French media market and was expanding into other European countries.

Media buying has traditionally been carried out by specialist departments within advertising agencies. But agencies have tended to concentrate on creative work, often at the expense of media. The Gross brothers exploited this weakness by persuading advertisers to separate media buying from the rest of their advertising and to channel it through their specialist buying business. The Gross brothers are renowned for their negotiating skills. Gilbert Gross is a world poker champion.

Throughout last spring and summer WCRS was embroiled in negotiating the sale of its advertising interests to Eurocom and the purchase of the remaining shares in Carat. It completed the deals in December. The advertising industry, nothing if not emotional, was outraged by a leading agency abandoning advertising for media buying.

Scott is unrepentant. He says his chief responsibility is to shareholders and that "if that means taking decisions that are unpopular with the advertising industry, *tant pis*."

Aegis is now structured as a conventional holding company. It runs Carat in the same way as its other subsidiaries – Pascoe Nally, the sports sponsorship company run by former British athlete Alan Pascoe, and the public relations consultancies – by delegating day-to-day responsibility to local management. The Aegis head office in London looks after group strategy and financial matters, such as tax and treasury management.

The re-orientation of the business towards France has had little impact in operational terms, given that Aegis' executives had already dealt with Carat as an associate.

Aegis intends to turn Carat into a network of media buying businesses across Europe. The rationale for its expansion is that the trends in European media of concentration of ownership among the global media groups and deregulation of the television system will make media buying increasingly complex and competitive.

This, Carat hopes, should encourage advertisers to switch their media buying away from agencies within marketing services groups into specialist companies like Carat. Carat also plans to buy media for the smaller advertising agencies that may find it too expensive to keep their own media departments.

It has adopted a two-tier structure whereby the buying is carried out by a series of small independent companies which draw on its central resources, such as research. Carat will spend £3m on media research this year.

Carat now represents 8 per cent of the European media market. It aims to reach a market share of 15 per cent within three years. It will achieve a share of 11 per cent if the French Government agrees to its application to handle the media buying for the Eurocom agencies in France. A decision is expected this month.

Carat is now strengthening its European network. It has just opened an office in Portugal and plans to open one in Greece. It intends to expand in the Netherlands, Scandinavia and eventually into eastern Europe. Aegis also plans to forge closer links between Carat and Pascoe Nally by developing new areas like programme sponsorship and barter syndication.

Peter Scott: one of the founders of WCRS and now chairman and chief executive of Aegis

The consensus in the City is that so far Aegis' new strategy has succeeded. The group recently announced profits of £16m before tax and extraordinary items on turnover of £345m for the six months to December 31.

"Media buying is a buoyant market and Carat is well placed to expand in the future," says Lorna Tilbian, an advertising analyst at Warburg Securities. "But the media buying market is about to become much more competitive."

One problem is the response of the other ad agencies to Carat. Some small agencies, notably in Italy, have banded together in "media clubs" as a defence against Carat's growth.

But the main threat comes from the large agencies which have centralised their media buying in some countries. The networks owned by WPP and Omnicom have formed the Media Partnership. The Interpublic agencies have created Initiative. Saatchi has centralised its UK buying into the Zenith buying operation.

These new units have already taken some business away from Carat. It recently lost its Omnicom account in Paris to the Media Partnership. More important, the new units are intensifying the pressure on profitability. Margins in French media buying have already been depressed by the emergence of the new buying groups.

Another potential problem is a French government inquiry into media buying in France. The inquiry should be completed by the end of next year. In the meantime Aegis' share price is almost certain to suffer. In the longer term it faces the threat of legislative intervention in France, its biggest single market.

The spectre of increased competition and legislative controls comes at a time when Aegis is already under financial pressure. The group has hefty borrowings: with net debt of £72m on negative net assets of £112m at the year end. It must also pay another £100m for Carat over the next four years. This payment, which will be in cash and possibly shares, is not performance-related so Aegis will have to find the money whether Carat fares well or not.

These financial constraints mean that Aegis will be dependent on organic growth. There may be some small acquisitions for Carat and possibly Pascoe Nally. But most analysts suspect it will have to reduce its holding in EWDB as it will be unable to help finance its expansion.

Over the next few years Aegis will discover whether its new strategy can succeed in an increasingly competitive climate or whether it may eventually find itself back in a position of being overly weighed down with debt and unable to expand.

Seeking a wider market for a perfume of Arabia

Victor Mallet explains the strategy for Amouage

Six years ago Sayyid Badr bin Hamad bin Hamood Al Bu Said and his family, members of the Omani royal line with extensive business interests in the Sultanate, hired Frenchman Guy Robert to create a classic fragrance.

The outcome of Robert's efforts was "Amouage", a perfume given an exotic oriental image associated with the frankincense trees of southern Oman and a price tag which made it the most expensive in the world. Amouage was one of a number of Oman's attempts to diversify its economy away from reliance on oil and gas, and the perfume has now become the flagship of the Sultanate's efforts to move into new markets.

Amouage, a French transliteration of an Arabic word meaning waves (marine or emotional), is imported from France and treated and bottled in a small factory near Muscat airport. It was sold largely in the Gulf, and also in Harrods, in London, but is now spreading rapidly overseas.

Since his appointment as managing director 18 months ago, Paul Griffin, a British former advertising executive, has helped Amouage to penetrate world markets by cutting the perfume's price, delicately adjusting its Arabian image and packaging, targeting duty-free shops and airlines, and advertising in Vogue. Amouage soap is already available and a number of other toiletries and accessories are in the pipeline.

Prices, which were once double those of its nearest rival Joy, made by Jean Patou, are now only 10 to 15 per cent higher, a tactic which, Griffin believes, brings Amouage within reach of more customers without losing the cachet of the world's most expensive perfume.

The costly gilded silver containers designed by Asprey (an Islamic-style domed flacon for the women's fragrance and an Omani dagger handle shape for the men's) have been supplemented by French lead crystal bottles for women which have the same dome motif but which, Griffin feels, have a more international appeal.

Retail prices of standard Amouage products now range from £80 to £590; special flasks inset with lapis lazuli, onyx and other semi-precious stones are even more expensive.

"Part of our brand positioning is our precious metals line," says Griffin. Other perfume houses have often started off in haute couture and branched out into fragrances; Amouage is not planning to compete in the market for silk scarves, but will try its hand at pens and cuff-links. "We feel that is a logical sequence," Griffin says, "because of our experience in precious metals."

The company holds sales courses for airline crews, such as those of Saudia, and encourages them with hefty commissions. This has paid off by consolidating Amouage's position on the airlines and in the duty-free shopping centres of the Gulf; Griffin has now moved into the Pacific, with duty-free outlets from San Francisco to Singapore.

Duty-free sales now account for about 30 per cent of Amouage's business, while the non-Gulf share of total sales has risen over the past two years from about 5 per cent to 25 per cent, and is still increasing.

Amouage is now sold through 60 outlets around the world. That may rise to about 100 in the next couple of years, but Sayyid Badr and Griffin are conscious of the dangers of over-expansion and the need to maintain an image of exclusivity.

"We've found through bitter experience (in the Gulf) that there's a limit to how much Amouage you can sell," says Griffin, who notes that increasing the number of outlets in a given country does not necessarily boost sales among such a select group of customers. Geographical expansion is, therefore, the key, and there are plans to attack the French market in the near future. Harrods is likely to remain the only outlet in Britain.

Like any fast-expanding small company, Amouage has experienced growing pains. Production facilities are overstretched, so the company plans to set up a second production line in Muscat, increase the workforce from the current level of 25, and introduce a three-shift system for continuous operation.

Management has already been streamlined by allowing the company to operate independently of the family-owned Omani conglomerate Sabco; previously decisions had to be taken by Sabco's board, which was unable to devote all its attention to Amouage's international efforts because it was also dealing with dozens of other companies in areas ranging from contracting to agriculture and real estate.

With a wholesale turnover of around $5m, Amouage is still not large enough to win substantial bulk discounts on inputs such as perfume bottles. Cash flow can also be difficult as the business expands. "Our biggest problem is that we buy 80 per cent of what we need in Europe on 30-day terms, and sell 75 per cent in the Gulf, where 120 days is normal," says Griffin.

Perfume, however, is all about marketing and high mark-ups. "If the cost of goods is more than 10 per cent of the end retail price, we are out of business," says Griffin. "The trade takes more than half."

The skills of Guy Robert, who also created Madame Rochas, have combined with an effective marketing strategy to establish Amouage as a classic perfume with a touch of oriental mystery. There are frankincense trees in Oman, but Amouage, like most of its rivals, contains only a small amount of synthesised frankincense oil.

"Up to about 12 months ago we were so small that nobody really bothered very much," says Griffin. "Now that we've got some packaging with more appeal I think they are beginning to take it a little bit more seriously, and in some markets we are very close to doing the same volume as Joy."

LEGAL NOTICES

IMPLY LIMITED

Registered number: [illegible]
Nature of business: Timber and plywood importers and distributors.
Trade classification: Plywood Importers
Date of appointment of joint administrative receivers 25 April 1990
Name of person appointing the joint administrative receivers Lloyds Bank plc
JOSEPH PATRICK CONSIDINE and Robert William Birchall
Joint Administrative Receivers (office holder nos 605 and 5085) of Cork Gully, Churchill House, Churchill Way, Cardiff CF1 4XQ

IMPALA DISPLAYS LIMITED

Registered number: [illegible]
Trade classification: Light Engineering
Date of appointment of joint administrative receivers: 25 April 1990
Name of person appointing the joint administrative receivers: Barclays Bank plc
Jonathan Michael Sisson and
Robin Michael Addy
Joint Administrative Receiver
(Office holder nos 4808 and 1021)
Cork Gully, The Atrium
St Georges Street, Norwich NR3 1AG.

No. [illegible] of 1990
IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION
IN THE MATTER OF WIMPEY-DUBILIER LIMITED
AND
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 9th April 1990 presented to Her Majesty's High Court of Justice for the confirmation (1) of the reduction of the capital of the above-named Company from £2,085,794 (2) of the cancellation of the share premium account of the Company amounting to £174,000.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Honourable Mr Justice Vinelott at the Royal Courts of Justice, Strand, London, WC2A 2LL, on Monday the Fourteenth day of May 1990.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital or the said cancellation of share premium account should appear at the time of the hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

Dated this 20th day of April 1990.
Manches & Co
3 Worcester Street
Oxford, OX1 2PZ

Ref: [illegible]

Solicitors for the above-named Company

PUTNAM EMERGING HEALTH SCIENCES TRUST S.A.
SICAV
Luxembourg, 11, rue Aldringen
R.C. Luxembourg No B 20958

Notice of Extraordinary General Meeting

The shareholders of Putnam Emerging Health Sciences Trust S.A. are hereby convened to attend a second Extraordinary General Meeting of shareholders to be held at the registered office of the Company on June 5, 1990 at 3.00 p.m. with the following agenda

Agenda

1. Amendment of the corporate denomination in Article 1 so as to omit therefrom «S.A.».
2. Decision to delete the text of Article 7 and to renumber the two last paragraphs of Article 6 to constitute the new Article 7.
3. Amendment of Article 21 first paragraph, lines 18 and 19 to delete the words «and adjusted for the effect of any warrants outstanding».

Due to the fact that a first Meeting held on April 17, 1990 did not reach a quorum and that it is hereby reconvened by notices given in accordance with Luxembourg Law, there is no quorum requirement at the second general meeting, at which resolutions shall be passed at a majority of two thirds of the shares present or represented.

The Board of Directors

CINEMA

A rush of blood to the head Down Under

Jane Campion's *Sweetie* is the best Australian film of recent times. It proves the long-established theory that since life in the Antipodes is lived upside down, normal existence is impossible. Blood rushes to the head and shoes must be magnetised to the earth. In these conditions it is quite possible that two mentally disturbed sisters would wreak havoc among boyfriends, family and each other.

Kay (Karen Colston) is slim, nervous and phobic about trees. (Her dreams are haunted by the sapling cracking through her paved frontyard.) Dawn, nicknamed "Sweetie" (Genevieve Lemon), is fat, emotional and failed in show business. (She wanted to be a singer.) Kay spends the movie's first half quarrelling with live-in lover Louis and being polite to moved-in sister Sweetie, who has arrived trailing clouds of chaos plus her boyfriend-manager. Then Kay, Louis and Kay's Dad flee Sweetie's tantrums by motoring off to see Mum, who is resident cook in a sort of Outback cowboy town. Soon Sweetie is chewing china animals and wrecking the home she has been left in. And worse is yet to come.

Campion does not actually attribute these people's problems to Australia's upside-down position on the globe. But she does take conventions of Australian drama – the family soap opera, the outback idyll, the career dreams of the country mouse or suburban squirrel – and lift them up by the ankles so that blood thunders to the brain.

Sweetie is *My Brilliant Career* hoist by the heels and held till its head turns red. For the feminist achievings celebrated in that movie, read frustrated career dreams and psycho-sexual crisis. For a single-minded heroine, read a pair of schizophrenic sisters (which adds up to four warring identities). The movie ends with Sweetie, who has been chewing the aforesaid china and carving up the furniture, painting her nude body black and climbing a tree. From here she yells blue murder at the returning family and the last-reel *walpurgisnacht* begins.

SWEETIE
Jane Campion

SHE-DEVIL
Susan Seidelman

SEE YOU IN THE MORNING
Alan J. Pakula

INTERNAL AFFAIRS
Mike Figgis

NUNS ON THE RUN
Jonathan Lynn

Celia showed us an Australia where bad little girls dream of monsters and commit manslaughter. Its bizarrities were slipped into a naturalistic setting and performance style. In *Sweetie*, first-time feature director Jane Campion – formerly a prize-winning maker of short films – gives the whole movie the glint of visionary madness. The colours and camera angles suggest Diane Arbus let loose in Wonderland. (The cinematography is by Sally Bongers, first woman cameraman to shoot an Australian feature.) And the storytelling combines moments of near-slapstick anarchy with a darker, fiercer pessimism.

Whenever you think the movie is about to decline into a down-under "French and Saunders" (Ms Lemon herself is a dead ringer for Dawn French), it changes into a more lethal gear and suggests a 'strine Strindberg. The cumulative effect is funny and shocking, ridiculous and sublime: the portrait of an idyllic land fissured by identity crisis.

In this feminist age, as women rise up from 10,000 years of oppression (give or take a millennium), they will inevitably be depicted as monsters as well as justice-seekers. One would expect such depictions to be perpetrated mainly by male directors, guarding their collective ego. Yet both *Sweetie* and *She-Devil* have all-female writing and directing credits.

Susan Seidelman's *She-Devil* takes Fay Weldon's already-televised novel and makes a mess of turning it into a movie. Meryl Streep alone strides tall, as the snooty lady novelist who whisks new boyfriend Ed Begley Jr from the tender embrace of his plump, plug-ugly wife Roseanne Barr (American TV's favourite housewife who, according to the *Daily Mail*, has her sights set on the American Presidency but here kitted out with wart and moustache). Miss Barr swears vengeance, and the mayhem begins.

Streep is wonderfully funny as she orchestrates her symphony of airs of graces: from purring ingratiation on TV chat shows to amorous swooning in the jacuzzi. This is the world of the lady novelist as her own exquisite creation. "Writing can be so, so lonely!" she exclaims soulfully, and smashes a cognac glass to the floor. Goodness knows on what real-life scribe, if any, Streep based this performance. It is like Elinor Glyn rolled up into Edna O'Brien. And it shows that an actress we thought of as La Ponderosa can also be La Hilariosa.

The movie's problem is Ms Barr. Underplaying a role that needs judicious overplaying, she is like a coma victim essaying Lady Macbeth. Gifted with lines that should bring the house down – "I'll go get a strainer" she comments when a gerbil is found in one of her stews – Barr's flat, nasal readings barely register 0: 01 on the comic Richter scale.

The result is a black comedy with a black hole in the middle. And the director's sex may be to blame. Unlike Jane Campion, Susan Seidelman looks to have had a failure of nerve with her own "she-devil." Loyal to her sex, she cannot make a monster of her avenger anti-heroine. So we have the ludicrous spectacle of a chain of vengeance executed by a woman who barely displays the energy to get up from a crumpled bed in the morning. There is no point in the devil having the best tunes if he or she is denied the expressive bravura with which to play them.

★

Oh for a devilish tune in *See You In The Morning*. This pious emotional drama was written and directed by Alan J. Pakula (*Klute*, *All The President's Men*) from memories of his own divorce. It could, I fear, have been written and directed by a computer from memories of yesterday's weepies. Piano music sheds its ivory tears over the tale of Dr Jeff Bridges, well-heeled psychoanalyst, who divorces beautiful Farrah Fawcett and marries beautiful but younger Alice Krige. Will he find happiness? More important, will the children adjust to the change of movie star in the role of mum, housewife and cook?

Someone should have come in and performed some cuisine art on Pakula's script. This runs to untrimmed literary growths like "Need, the great seducer" and unblushing foliations like "I wanted to lie with you in the haunted moments of the night." Falling to fight its way out of a smiling-through-tears preciosity, the film leaves us feeling that the problems of the rich are indeed different from our own. They can afford to turn minor ills into forty-carat woes. (Bridges and Krige are both migraine sufferers and don't they let us know). And they can make a scene of pushing airport luggage up a busy ramp into a metaphor for the Sisyphus struggles of the emotions, when most of us would just be glad we could afford the air tickets.

Genevieve Lemon and Karen Colston in Jane Campion's 'Sweetie'

★

Internal Affairs is a rumbustiously seedy police thriller directed by Britain's Mike Figgis (*Stormy Monday*). "Film noir" would understate the film's style, as corrupt police detective Richard Gere and "internal affairs" cop Andy Garcia prowl through a shadowed, slatted, Stygian Los Angeles: a place where a pocket torch is as necessary as a smog mask.

Garcia is out to nobble Gere because Gere is, or could be, a killer. Also because Gere, a spare-time Lothario, is making a play for every police colleague's wife, including Mr Garcia's. Two hours of cunning cat-and-mouse ensue, which runs out of floor-space only at the end when contrivance brings about the inevitable face-to-face shoot-out. Much doomy electronic music (which sounds like the mellifluous moaning of whales); much wooden Indian ferocity by Garcia; and much lightheeled, impudent charisma from Gere in the gift role of a cop you love to loathe.

★

British movie comedy is a dear, defenceless thing and we must all give generously from time to time. But I refuse to fork out a single P for *Nuns On The Run*. One: it is already making enough money in America. Two: it is excruciatingly unfunny. Robbie Coltrane and Eric Idle are the bank robbers hiding out in a London nunnery and soliciting our chortles for the transvestite consequences. If your sides burst at the mere sight of a razorable countenance donning a snood or wimple, Jonathan Lynn's witless film may be for you. If not, get *Some Like It Hot* from your video shop and see how cross-dressing comedies should really be done.

Nigel Andrews

The Duchess of Malfi

THE PIT

The film of Tennessee Williams' *Suddenly Last Summer* took a powerful leaf from John Webster's Jacobean shocker when the asylum-confined Elizabeth Taylor crossed a bridge over a room full of madmen who leapt and clawed at her, much as the hapless Duchess is surrounded by capering lunatics as a torment. Cinematic parallels recur throughout Bill Alexander's production: the compactness of plot, the inexorability with which "having fashioned themselves of nothing, they strive to bring themselves to nothing," are unmistakable elements of *film noir*.

First seen in Stratford last November, this production has one notable cast change. Stephen Boxer plays Bosola, the household "spy-turned-murderer, without the conventional hint of Machiavellian villainy. This is an interestingly understated performance, dead-pan, watchful, cool with dislike, a bespectacled *apparatchik* disposing of cadavers when necessary, but occasionally erupting into lupine snarls (wolf imagery looms large with Webster's darkling muse) of anger and self-contempt.

The actor uses a naturalistic technique successfully; less successful is such literalness applied to the madmen (the scene emerges as neither harrowing nor moving) or the murders of the Duchess and her lady, where spasmodic twitching and thrashing bring an unwelcome clinical touch to the black poetry.

Harriet Walter's Duchess is for the most part strong and moving, touchingly vulnerable in the wooing of her steward (Mick Ford, a trifle stiff and callow), though the grief that nearly unhinges her is almost impossible to convey for modern taste. She convinces in both the dignity of her station and the fragility of her happiness, less in staring at the depths of tragedy. As the elder of her murderous brothers Bruce Alexander, impressive Mekon forehead patently bulging with evil, does not avoid the melodramatic scowl – and Sally Andrews' poor Cariola finally resorts to gaping incredulously, as well she might, as horror piles on horror.

Fotini Dimou's set is oddly clean-lined with right-angled doorway and metallic-looking gallery, all of which suggests even more Humphrey Bogart as Bosola and Claire Trevor as the lustful Julia, the Cardinal's mistress who falls for him and pays the price. In fact Patricia Kerrigan is outstanding in the role, a very proper courtesan brandishing her tiny pistol with style.

The production's strength lies in its clarity, the briskness with which it recounts the tragedy. If the cast could hide their detectable self-consciousness at moments of gore and outrage, and overcome their obvious fear of overdoing it, it would perfectly evoke Webster's gloaming charnel-house genius.

Martin Hoyle

Alastair Muir

Harriet Walter and Bruce Alexander

Tokens of Affection

DERBY PLAYHOUSE

Four of the characters in Maureen Lawrence's play are maladjusted girls in a special teaching unit; the other three are the staff. Each of them has been given a quality that shows the variety existing in what, from the outside, might seem similar people.

The school is run by middle-aged, stern Annette (Madeline Blakeney) and rather younger, more liberal, Nancy (Lucinda Curtis). To assist them comes Gillian (Beatrice Comins), divorced, with a family, but with no experience in such work. The three approach their task in interestingly different ways. Annette lives by the rule-book. Privileges are available to the girls – sweets, cakes, bus-fares, even tokens in lieu of bus-fares – allowed for good behaviour or withdrawn for naughtiness. Annette dispenses these with one object, to keep the kids under control.

Nancy's wider ambition is not only to control but to reform. Gillian, the newcomer, is moderate at control, has no theories of reform, but is moved by humanity. To her the girls are not pupils, or patients; they are teenage children who need understanding – each a different kind of understanding. Tubby, flamboyant Debbie (Charlotte Barker, fine playing) cares only for her own satisfaction, no matter what trouble this may cause. She is particularly close with Kelly (Gillian Wright), fresh in from Court after a rape. Poor, grubby Liane (Jackie Luck), who has never known affection, is the butt of all the mockery those two can devise.

The fourth girl, Andrea (Teresa McElroy), is another matter. She may prove to be a mental case, while the others are only naughty; she spends most of the evening in Annette's office, silent and immobile. Yet it is she who, in the end, provides a plot, when she steals a knife and slashes the dress that Kelly has been sewing while Debbie is away on the run. A maladjusted child with a Stanley knife is more than three caring ladies may be expected to cope with and the police have to be called. Andrea finds her voice at last; as she is carried out to the squad-car she screams the house down.

No stronger plot is needed; what fills the evening is the varied behaviour of children and staff. There is affection hidden in the approaches both of girls and staff; it was moving to see Nancy's momentary revulsion as she embraces grubby Liane. The girls' conduct is remarkably well observed (and believe me, it is not very different from boys' behaviour in like conditions).

The acting, under Annie Castledine's admirable direction, is first-class. There is a lot of meaningless foul language both in the dialogue and chalked on the wall of Roger Bourke's design, an unfriendly schoolroom with an unfriendly office in one corner. But there is nothing unfriendly in Maureen Lawrence's humanity. Affection is indeed her theme.

B.A. Young

Las Hermanas

SADLER'S WELLS

The family has ever been a favoured location for Kenneth MacMillan's explorations of the human psyche. Within the clear structure of its relationships, he finds causes for anguish and subterfuges – and affections – which he examines with clinical precision. From the extraordinary family of *Anastasia* to the haunted siblings of *My Brother, My Sisters*, he has probed and goaded his characters, forging the while a language of rare expressive potential.

Las Hermanas remains one of his most direct and succinct exercises in domestic tension, and given performances as taut as those from Sadler's Wells Royal Ballet's artists on Tuesday it has lost none of its power to hold the viewer.

It is melodramatic in outline, with its matriarchal bully and frustrated women; its lusts are furtive and its emotions raw, yet the choreography, and the interpretations it inspires, never cheat, nor stress the obvious. Instead, the characters are drawn with penetrating clarity: the three chief sisters exist as individuals from the moment we see them rocking in their chairs; the brutish suitor (Joseph Cipolla) has but to stand in his too-tight clothes for us to know him.

Marion Tait as the eldest sister catches all the frustration and repressed sensuality of her role, so piercingly fixed by a circling gesture of her linked hands; Karen Donovan and Bonnie Moore as the middle and youngest sisters offer studies in seething and violently opposed emotion. And at the ballet's end we know about these women, and the aridity of their future.

There could be no greater contrast than the flirtations and ambiguities with which Graham Lustig enlivens the Poulenc two-piano concerto in his *Paramour* in this new programme at the Wells. Two couples flirt at an elegant party. There are little mysteriousnesses as Marion Tait is involved with David Yow and then with Petter Jacobsson. But Jacobsson is also caught up with Galina Samsova, whom we are finally told has protective feelings for Marion Tait.

Permutations of feeling, glances that give too much away, avowals that give too little, are the fabric of a lightly confected piece that revels in insincerities, and delights by the fluent way its cast present the choreography. It is a trifle, but its central quartet treat every least moment with the proper seriousness, and we are intrigued and held by something as prettily iridescent and impermanent as a soap bubble.

The bonne-bouche in an evening that ended with *Elite Syncopations*, was Miyako Yoshida and Tony Fabre, buoyant and quick-footed, in the *Don Quixote* pas de deux. They had the groundlings in a roar. The two considerable scores of the evening – for *Las Hermanas* and *Paramour* – sounded very well under Philip Ellis's baton.

Clement Crisp

Thomas Zehetmair

BARBICAN HALL

Tuesday's English Chamber Orchestra concert was a good-tempered affair, with Jeffrey Tate conducting a brace of the best Mendelssohn and a brace of cheerful Weber. Perhaps the latter's *Oberon* Overture began with unwonted sobriety, more grave than suspenseful; but with the Allegro it took off in high spirits. In his Clarinet Concertino the soloist Thea King, in her deceptively modest way, strewed witty insights on all Weber's music. I thought she sounded unconcerned about the recently discovered cadenza by Heinrich Joseph Bärmann, the dedicatee of the Concertino, though she gave it a good run for its money.

Mendelssohn's "Italian" Symphony was properly exuberant in the quick movements, with a strongly sculpted Andante. The *saltarello* Finale generated the proper excitement, despite a surprising amount – for the ECO – of imprecise ensemble. Even the racing woodwind-pairs were continually a fraction of a beat apart – and in the Barbican acoustic, Mendelssohn's lively wind-parts sometimes drowned the strings; and yet the eager drive of the whole movement was irresistible. Tate's classical reading was engineered to confident effect. It was the more impressive after his scrupulous support for Thomas Zehetmair's elusive, unorthodox reading of Mendelssohn's Violin Concerto.

Salzburg-born and bred, Zehetmair is a fascinatingly wayward performer. He cultivates not only a feather-soft, entirely personal tone, of unabashed domestic-Austrian sweetness (plenty of *portamenti*), but an imagination that disdains virtuoso routine. The very idea of polishing every note to maximum brilliance is plainly anathema to him: he is liable to slide casually over the hoariest, most "effective" passages – though his quicksilver, playing in the Finale was magical – in favour of lighting other parts of his music from unexpected angles. It's a kind of second-order interpretation, if you like, which presupposes our familiarity with conventional, thrusting treatments of a score, the better to explore the expressive potential of its neglected corners. Probably Zehetmair does that differently every time: and what could be higher praise?

David Murray

ARTS GUIDE

April 27-May 3

EXHIBITIONS

London

The Tate Gallery. The entire permanent collection has been rehung so that the visitor may now take a natural circuit through the newly restored galleries. The works range from 16th century British painting through to the the most recent of modern international art. It is a curatorial triumph.

The Royal Academy. Modern Masters from the Gelman Collection – a self-explanatory exhibition of masterpieces of the 20th century from Bonnard and earlier Picasso to Picasso the old man, by way of all the great names of the School of Paris, Matisse, Modigliani and the rest. Until July 15; sponsored by Guinness.

Paris

Grand Palais. Soliman Le Magnifique. A treasure trove of goldsmiths' work, miniatures, ceramics and textiles recalls the splendour of the reign of Soliman "the shadow of god on earth", whose Ottoman Empire stretched in the 16th century from the Caucasus to the gates of Vienna and from Algeria to the Persian Gulf. Closed Tue, Wed late closing, ends May 14 (42895410).

Musée d'Orsay. The Fragmented Body. Parts of the human body, or the incomplete body form the leading strand of an exhibition beginning with ex-votos and reliquaries and culminating in a celebration of Degas, Bourdelle, Maillol and especially of Rodin with his masterly transition from realistic to abstract sculpture. Ends June 3, closed Mon, entrance Quai Anatole France (40494814).

Musée Carnavalet. Antique bronzes. Some 400 statuettes bring to life the Gallo-Roman world up to the 5th century. They are grouped in glass cases around a divinity surrounded by objects of the appropriate cult. Closed Mon, ends July 1 (42722113).

Musée d'Art Moderne de la Ville de Paris. Kees Van Dongen. 132 works retrace the career of the painter who, as one of the Fauves, enjoys provoking the public with daring juxtapositions of violent colours, charcoal contours and green shadows. The Dutch-born artist goes further and shocks with erotic subjects and poses, only to subside later into portraiture of the elegant and famous. 11, Ave President Wilson. Closed Mon, late closing Wed. Ends June 17 (47236127).

Grand Palais. Pre-Columbian art in Mexico (1500BC – AD1521). Some 130 exhibits from Mexico's archaeological museums bear witness to the high degree of artistic development of the ancient civilisations of the Mayas and Aztecs. Closed Tue, late closing Wed. Ends July 30 (42895410).

Brussels

Musée d'Art Moderne. Retrospective of the Belgian abstract/expressionist artist Englebert van Anderlecht (1918-1961). Closed Monday, ends May 13.

Ghent

Museum voor Schone Kunsten. Flemish Expressionism in a European Context (1900-1930) with works by De Smet, Ernst, Permeke, Van den Berghe and Zadkine. Closed Monday, ends June 10.

Venice

Palazzo Grassi. Andy Warhol Retrospective. 250 works from the major exhibition organised by Kynaston McShine for the Moma in New York last spring, to which have been added about a dozen from private Italian collections. The show has since toured Chicago, London and Cologne, to end its tour at the Beaubourg in Paris this summer. Until May 27.

Rome

Braccio di Carlo Magno in Piazza San Pietro: Michelangelo and the Sistine Chapel. This exhibition marks the end of a 10-year stint by Vatican restorers on the ceiling of the Sistine Chapel and the beginning of an estimated further four years' work on The Last Judgment. Remarkable for the exceptionally generous opening hours (open every day except Wed and on Sat from 9.30am to 11.00pm) and handsome catalogue as well as a rich collection of drawings by Raphael, Rubens, Annibale Carracci, showing clearly Michelangelo's powerful influence, the exhibition also carefully documents the techniques used and the difficulties encountered by the restorer. Ends July 10.

Palazzo Venezia. Art for Popes and Princes of the 17th and 18th centuries. Over 70 large and exuberant canvasses from the country seats of Popes, Cardinals and the Roman aristocracy (Chigi, Barberini, Colonna, Pamphili etc.) in the area stretching south of Rome, once known as the Campagna Romana. Not surprisingly, most of the subjects are religious, but varying from the limpid and meticulous account by Van Wittel, of Pope Clement XI's visit to Albano to the splendid rest on the flight into Egypt by the Venetian Carlo Saraceni.

Madrid

Museo Arqueologico Nacional. Art in the court of Naples in the 18th century. Different examples of art including paintings, sculpture, furniture, porcelain and tapestries produced during the reigns of two Bourbon kings: Charles III and his son Ferdinand IV. Ends May 6.

Munich

Kunsthalle der Hypo-Kultur-Stiftung, Theatinerstr. 15. Joan Miro a collection of scurrilous sculptures and previously unpublished drawings by Miro will be on display in Munich's Kunsthalle until June 17.

Saarbrücken

Moderne Galerie. Growing on the Move. Retrospective of Paul Klee (1879-1940) in honour of the 50th anniversary of his death with around 190 oil paintings, watercolours and drawings from all periods, to be seen until May 27.

Vienna

Kunstforum. Works by the Romantics, ranging from Caspar David Friedrich to Adolph Menzel.

Museum für Völkerkunde has a marvellously exotic exhibition called Jemen, focusing on the world around the Queen of Sheba. Ends June 10.

New York

New York Public Library. More than 125 documents of the Abolitionist Movement, including photographs, letters and rare books, display the spirit and drive of the long effort to free the slaves. Ends Sept 15.

Museum of Modern Art. In its serious, thorough way the museum gives its version of the history of photography, showing off earlier image-developing techniques along with 275 photographs. Ends May 29.

Washington

National Gallery. A joint Soviet-American collaboration brings together Matisse's fruitful and arguably pivotal work in Morocco during his visit in 1912-13 including 23 paintings and 45 drawings, among them the famous Moroccan Triptych from the Pushkin Museum, never before exhibited in America. Ends June 3.

National Museum of Women in the Arts. The first major retrospective of the work of Dame Elizabeth Frink includes 60 sculptures and 25 drawings, including monumental bronze casts of male figures, portraits and animals in characteristic roughly textured heroic poses. Ends July 4.

Chicago

Chicago Historical Society. The Land of Lincoln does its most famous citizen proud in the exhibition A House Divided. America in the Age of Lincoln, with documents, mementos and personal effects of last century's Great Emancipator.

Chicago Historical Society. A special exhibit of Frank Lloyd Wright's designs for art-glass windows, furniture and silver shows why the details completed the distinctive Wright look. Ends June 17.

Tokyo

Tokyo National Museum. National Treasures of Japan. Painting, sculpture, calligraphy, craftwork, archaeological artefacts, from prehistoric times to the Edo Period.

National Museum of Western Art. Bruegel and Dutch Landscape. 58 paintings on loan from the National Gallery in Prague. The centrepiece is Pieter Bruegel the Elder's magnificent Haymaking, with its wealth of circumstantial detail, and the focus is on the development of landscape painting as a genre from its beginnings in about 1500 to the mid 17th century.

Idemitsu Museum. In Pursuit of the Dragon: Tradition and Transition in Ming Ceramics. Major examples of Chinese porcelain drawn from the museum's own extensive collection.

Shoto Museum, Shibuya. Postwar Japanese Art. Paintings and sculpture mainly by members of the Gutai Bijutsu Kyokai group, who tried to forge a distinctive Japanese avant garde style. Fascinating.

Meguro Art Museum, near Meguro station. The Kahnweiler Collection. Major works from the personal collection of the art critic and dealer who promoted the work of Picasso, Braque, Gris and other pioneers of Cubism.

SALEROOM

Spencer record for school

Aldenham School is £1.32m (minus 10 per cent) richer following the sale at Sotheby's yesterday of "The Crucifixion," a late work by Stanley Spencer which had hung in its chapel for over 30 years. It was bought by the collector-dealer Ivor Bracker who had to pay a record price for a Spencer, and well above the top estimate of £400,000. Indeed the price was a record for a "modern" British artist as against a "contemporary" artist, like Bacon, Freud and Hockney, whose best work might make more.

Spencer is enjoying a critical revival and two months ago Christie's set a record of £700,000. "The Crucifixion" was commissioned by Jack Martineau, Master of the Brewer's Company, a friend of Spencer, and of Aldenham, which quickly realised it had a masterpiece.

The auction of Modern British pictures totalled £3.58m with 17 per cent unsold. A 1922 portrait by Sir William Orpen of his mistress Yvonne Aubicq, showing her naked and taking a light but sensual breakfast, sold for £219,000, double the estimate and a record for this celebrated society painter. Six years later Orpen pensioned her off with a Rolls Royce and its chauffeur, who she subsequently married.

The auction produced an encouraging burst of records, including the £143,000 for a French landscape by Roderic O'Conor; £82,500 for "The Birth of Venus," a striking nude surrounded by black fishermen, by William Roberts; £40,700 for "Wild Flowers" by Winifred Nicholson; and £24,200 for "A garden scene" by Roger Fry.

Also at Sotheby's a Gallé carved cameo and enamelled onion shaped glass vase, made in 1894, sold for £121,000. It showed a good return for its owner who had bought it in the same auction room 25 years ago for £35. A large Gallé internally decorated and intaglio etched glass vase on a bronze foot, of around 1900, did well to make £126,500 in a successful applied arts auction which brought in £940,000 with only 4 per cent unsold.

Antony Thorncroft

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Gorbachev in the club

UNHAPPY the country where the leader is worshipped. On that test, the events in Red Square on May Day should be judged as increasing the happiness of the Soviet people, and the happiness of the west with Mr Mikhail Gorbachev. He has now joined the club of those heads of state who provoke public fury on the part of some and who do not or cannot stop them showing it.

President Bush was heckled over his invasion of Panama; Chancellor Kohl was booed in West Berlin the day after the wall was opened; Mrs Thatcher, now, would receive the same treatment unless the audience was carefully selected. It is one of the necessary prices they pay for their power – and for ours. It is precisely because the holding of Soviet power has been, since the Brezhnev era, such a low-priced business that its politics, its economy and its society are so miserably stagnant. The dead hand of Brezhnev autocracy has left a fearsome legacy for Mr Gorbachev. He cannot, were he twice the democrat he is, destroy it by himself. Thus the appearance of such slogans as "Marxism Leninism in the dustbin of history," "Communists, have no illusions, you have failed," and "Ceausescus of the politburo, get out" is of great assistance to what he has managed to do by his own efforts. Soviet society is now producing politically-motivated rather than politically-organised groups, which is good news.

Official reaction

The problem, if there is to be one, is not the appearance of the slogans, but the reaction to them. It may be vengeful but the better bet is the optimistic one. Radical Moscow was allowed to display itself at the foot of the Lenin Mausoleum and standing on it was Mr Gavril Popov, the new mayor of the capital and a radical himself, reportedly smiling throughout the demonstrations which set Mr Gorbachev's fingers drumming on the parapet.

Mr Popov represents the force of democracy, which Mr Gorbachev has never frontally challenged – even over the Lithuanian issue. He has grumbled, stamped, threatened, bullied and shouted: but he has so far, reluctantly at times, happily at others, followed the logic of his own constitutional reformism – in the relative freedom of the press, of the Congress, of permission to create other political forces, of the ending of the Communist Party's monopoly.

Imperfect record

The record is not perfect. We have seen the imprisonment of pro-independence activists in Armenia (now almost forgotten), the brutality against peaceful demonstrators in Georgia (still unpunished) and the occupation of Baku in Azerbaijan (where the political crisis remains festering and unresolved). In the issue of Lithuania we have seen a hard line which, though tardily made explicit and recently subject to some softening, still denies independence and may still provoke a tragedy. When Dr Elena Bonner, wife of the late Andrei Sakharov, addressed the faculty and students of Berkeley in California in March, she told them that perestroika remained a puzzle to her people. "We have not yet had political change and we still have no conception of what will be constructed to replace the state which used to call itself the state of Developed Socialism."

Her judgment is probably too harsh. Mr Gorbachev has not created a civil society in the Soviet Union. He has not ensured an underpinning of rights which would survive his passing and his replacement by a tyrant. He has increased his own power rather than that of the people. He and his colleagues have trembled before these necessary political tasks, much as they now tremble before that of liberalising the economy. And for the same reason. The weight of a past in which constitutional democracy only occupied a blink of time is enormous upon them. It absolutely precludes, in other than a series of crabwise movements, a move to a state in which rights are guaranteed. The west's concern, and more urgently that of the Soviet people, should be that the crab moves generally forward. So far, it has. If Red Square goes unpunished by more than a presidential sulk, it will continue to do so.

Scandal in the Isle of Man

EVENTS on the Isle of Man, a small offshore financial centre in the Irish Sea which is home to only 65,000 people, may not impinge much on the world at large. But there are wider lessons to be learnt from the saga of the Savings and Investment Bank which reached a messy conclusion last week. These lessons are both for investors who place money in offshore centres, and for those centres themselves as they seek to foster a sound reputation.

The facts of the SIB affair are simple enough. The bank specialised in offering high interest rates to attract deposits with the additional advantages of the Isle of Man's low tax rate. It re-lent the money to a limited number of favoured, high-risk borrowers who offered little or no security. The inevitable happened: it crashed and only £8m of £42m lent has been recovered. As a result, 3,000 depositors lost £42m.

But what is more scandalous is that those events occurred in 1982. For most of the intervening period, the Isle of Man Government successfully fought to prevent the publication of two investigations into the affair, one by the Bank of England. It claimed that disclosure of the contents of the reports would prejudice whatever legal proceedings arose from the collapse. In a bizarre twist, one of the reports even became the property of the Manx courts where the depositors were suing. Thus the depositors were deprived of access to key evidence for their case, with the threat that revelation of the report's contents would constitute contempt of court.

Show trial

It was only as a result of a change in government in 1986 that the Manx authorities themselves set the legal wheels in motion. They sought the conviction of eight owners, managers or agents of the bank at a show trial on which they were prepared to spend £10m – a considerable sum for an economy with reserves of less than £60m. But the trial collapsed last week when the judge ruled that there had been unacceptable delays in bringing the action – delays for which the Manx Government bears responsibility.

At the same time, depositors who sued the Government over its supervisory failure – which allowed the bank to trade insolvently for the last 16 months of its life – lost their case in the courts. Their defeat came not because they failed to prove negligence but because it was ruled that the Government did not have a duty of care in the first place.

The affair leaves a most unpleasant taste. It has to be said that the Manx Government has taken positive steps to improve the supervision of its banking industry since the SIB collapsed, including the importation of an official from the Bank of England to run it. It is also to the Government's credit that it did initiate proceedings after the elections of 1986, and that there are now calls for full publication of the reports.

Cynical view

None the less, the Government bears a heavy responsibility for its earlier encouragement to banks like SIB to establish themselves on the island without providing adequate supervisory resources. Its subsequent failure to act promptly and ensure that the facts of the case were publicly established displayed a cynical view of its political priorities. The fact that it did eventually launch proceedings is small comfort because the case failed through its own delays.

The thoroughly unsatisfactory outcome of the legal proceedings places a strong moral obligation on the Government to offer some form of material redress to the depositors. There is a precedent for such a move in the UK Government's own offer of £150m compensation to the victims of the Barlow Clowes collapse last year. Maybe many of the depositors were seeking to evade UK tax. But they should be compensated if they are willing to identify themselves.

More generally, the case should cause investors to consider carefully the wisdom of investing in unfamiliar jurisdictions. For governments, it reinforces the case for prompt and full public disclosure of the facts behind such scandals, a lesson which the UK Government has only belatedly learnt following the Harrods affair.

ECONOMIC VIEWPOINT

Blues' Poll Tax blues

By Samuel Brittan

The UK Community Charge (i.e. Poll tax) has all the classic ingredients of a tax reform fiasco. There are far more losers than gainers both on a crude and on a more sophisticated comparison. There are also some highly publicised outrider cases where the losses are particularly large.

An investigation by the Institute for Fiscal Studies (Local Government Finance: The 1990 Reforms, IFS £6) finds that the typical increase in local tax compared with the 1989-90 rates bill is between £50 and £150 per annum. The IFS has not tried to say what rates would have been without the charge. But it has made a detailed comparison with 1989-90 rate levels, uprated by the official inflation allowance for last year of 7.7 per cent.

On that basis 37 per cent of households have had negligible changes in their local tax bills. Some 14 per cent are net gainers and 48 per cent are net losers. The average change for a householder with net income of less than £400 per week is a loss of £2.50. Householders with incomes above £600 gain on average over £4.

After the local election results the Poll Tax will produce more headlines on Black Friday May 11, when – by adding a good 1 per cent to the Retail Prices Index – it will take the headline inflation rate for April, to be published that day, above 10 per cent. To be fair, that particular idiocy should be blamed on the Retail Prices Advisory Committee which has done more damage to the British economy than squadrons of enemy bombers. The Poll Tax is a direct tax and has no more claim to be in a price index, however broadly defined, than the Basic Rate of Income Tax. Still further damage will be done if the Central Statistical Office, as is to be feared, incorporates the Poll Tax effect in its index of underlying inflation.

At the present stage of the economic cycle we need the Poll Tax effect on the RPI like a hole in the head. As it is, there are enough influences tending to exaggerate the underlying rate of inflation. The danger – highlighted by the CBI Survey – is that either current fears about inflation will become self-fulfilling through their knock-on effect on wages; or there will have to be a sharp recession to prevent this happening.

The more highbrow criticism is not just of the Poll Tax itself, but of the abolition of domestic rates. For all their imperfections they were the last vestiges of a tax on the income in kind from domestic property ownership. Their removal will increase the demand for houses and for bank loans to finance them as soon as the economy recovers and the interest rate squeeze begins to ease. The result will be either to increase the long term rate of inflation or to increase the interest rate and unemployment cost of preventing this occurring.

Estimates of the effect on domestic property values vary in degree, but not in direction. The point is that *any* distortion in favour of residential property relative to other forms of investment is the last thing required in a land-hungry country with severe restrictions on development. This is quite apart from making the control of inflation more difficult.

Those who are suspicious of aggregative economics might prefer to assess the Poll Tax on the basis of Adam Smith's famous "four maxims with regard to taxes in general" (The Wealth of Nations Book V, Chapter 2 Part II). This is especially apt as the Adam Smith Institute is supposed to have been a strong intellectual influence on the development of the Poll Tax. Listen, how ever, to Smith himself.

● The subjects of every state ought to contribute to the support of the government as nearly as possible in proportion to their respective abilities.

● The tax which each individual is bound to pay ought to be certain and not arbitrary. The time and manner of payment and the quantity to be paid, ought all to be clear and plain to the contributor and to every other person.

● Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it.

● Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what is rendered into the public treasury of the state.

Judged by Smith's first maxim, ability to pay, the Thatcher Poll Tax falls down – even though Smith was not advocating progressive taxation and was content with proportionality.

The best riposte for government apologists is to look at the Poll Tax, which accounts for only 25 per cent of local revenue, not in isolation, but together with the proceeds of all taxes which contribute to financing local authorities. Very late in the day such an estimate has been supplied by the chairman of the Conservative Trade Committee, Mr Michael Grylls, in yesterday's Daily Mail. He says that a company chairman on £300,000 per annum contributes £20,672 towards local services, while a "gasman" on £12,000 contributes £967.

The comparison does not quite work even on its own terms. For the chairman earns 25 times as much as the gasman, while his imputed local tax is only 21.4 times as high. Much more important: Mr Grylls does not tell us about the relative change in the position of the two men before and after the switch from rates. The reliefs which the Prime Minister keeps on mentioning offset some of the regressive effect of the switch, but are not even intended to offset the lot.

As for Adam Smith's second maxim about the time, manner and quantity, all being clear, this can only occasion a horse laugh. We might just grant the tax a pass under the third maxim, payment at a convenient time.

On the fourth maxim of efficiency or minimum cost of collection, the Poll Tax does not even start to compete. The IFS study shows that the cost of levying the Community Charge is twice that of levying rates. Most authorities received returns from a high proportion of inhabitants. So the collection costs are inherent in the tax itself, which is one on a large number of movable individuals instead of a smaller number of immovable properties.

Smith himself preferred to talk about capitation taxes. For most so-called Poll Taxes in his day were incorrectly named. He had in mind, for instance, a British tax of a guinea a head levied on every manservant. He mentions Poll Taxes under William III, which were levied according to rank. A gentleman paid more than shopkeepers, barons more than gentlemen and dukes more than barons. For pure Poll Taxes he would have had to go back to King Richard II's measure of 1380 which provoked Wat Tyler's Peasants' Revolt.

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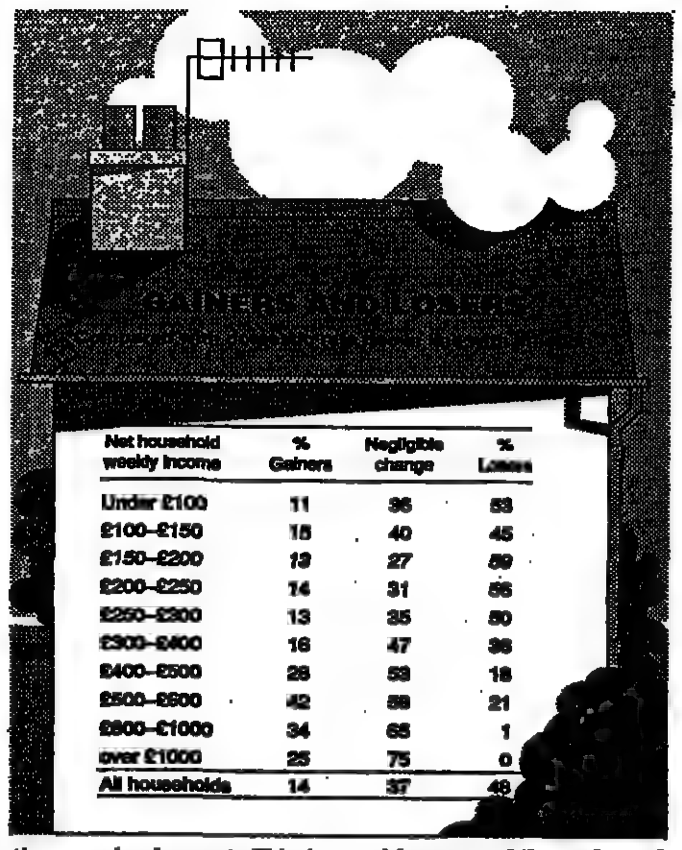
The elementary (and characteristically unTory) error was not to realise that a change can be for the worse, and that it was possible to devise a tax more unpopular than domestic rates. There was little attempt to examine what was disliked about the rates – which was not the principle as such, but the infrequency of revaluations, which therefore came as a great shock to those whose property had increased most in value. An analogy is with the shocks brought about by increases in top salaries or MPs' pay, which seem so large because they are deferred for so many years.

The more fundamental problem arises from local authorities spending about four times as much as they raise directly. They will only become "responsible" if the typical authority raises most of its own revenue and central government support is reserved for the poorer ones. Such a reform can be implemented in two opposite ways. A new source of funds could be found for local authorities – say a local income tax in addition to domestic property tax, which would be offset by reductions in national tax. Alternatively local government would become more self sufficient if some very large items of expenditure, such as education, became a central government responsibility.

Neither move has been attempted and, after the Poll Tax fiasco, any government will think many times before attempting anything radical. The moral surely is that prime ministerial instincts are no substitute for genuine analysis and may muddy the pitch for real reform.

The elementary error was not to realise that a change can be for the worse, and that it was possible to devise a tax more unpopular than domestic rates



Net household weekly income	% Gainers	Negligible change	% Losers
Under £100	11	36	53
£100-£150	15	40	45
£150-£200	13	27	59
£200-£250	14	31	55
£250-£300	13	35	50
£300-£400	16	47	38
£400-£500	28	53	18
£500-£600	42	38	21
£600-£1000	34	65	1
over £1000	25	75	0
All households	14	37	49

BOOK REVIEW

Europe's new battleground

EUROPE RELAUNCHED: TRUTHS AND ILLUSIONS ON THE WAY TO 1992
By Nicholas Colchester and David Buchan
Economist Books and Hutchinson £15.95

Describing what is going on in the European Community these days would be a complex enough task even without the turmoil in eastern Europe.

This book by two experienced writers, respectively of the Economist and the Financial Times, succeeds remarkably well in describing the 1992 programme and how it will affect businesses and individuals, and in throwing light on the rest of the Community's agenda. It is also sufficiently up-to-the-minute to recognise some of the implications for the Community (and for the EFTA countries) of what is happening in eastern Europe.

The European Commission has just reminded us that there are now fewer than 1,000 days to go before the end of 1992, the target date for achieving the Single Market. Completing the legislative programme on time will require one decision a week from now on.

Whether or not that is accomplished, the movement is inexorable. It will not be deflected by vested interests, although they will have an influence on the small print.

It will not be deflected by the need to rethink the architecture of Europe, though the process of German reunification in particular may have an effect at the edges. Nor will it be perfect, since implementation of the programme at national level will be very uneven. The tourist may not see much difference at the frontier, and the impact on trade will depend as much on local taste and custom as on the extent to which legislative barriers come down.

The book contains a diagram plotting "Euro-homogeneity" against "national distinctiveness." You are more likely to go to your local British supplier if you want funeral services and to shop around Europe if you want industrial feedstock.

The ramifications of the 1992 programme are well covered. The spur which it has given to European competition policy and to the stricter control of government assistance to industry; the effects on the common agricultural policy and the implications for the current Gatt round. Having examined the charge that the EC is engaged in creating a "Fortress Europe," the authors conclude: "On balance, it is still fair to say that Europe is building a more open internal market without becoming more protectionist to the world outside." This conclusion will surprise many in the US but it is right.

Their verdict on 1992? Likely to succeed but only with a degree of mutual trust and influence between EC states that will mean they are "halfway to political union."

The authors are at their most interesting when they examine the interplay of economics and politics, always a potent blend but the very lifeblood of the EC. Mrs Margaret Thatcher's support for the Single European Act sprang not from federal conviction but from the belief that it would mean Europe-wide de-regulation. This coincided with the mood of the 1980s but, as the authors point out, it is ironic that this liberal consensus "served to deepen the EC's supra-nationalism irrevocably." With the leftward shift in Europe it is now the "social dimension" which has become the "battleground of Euro-ideology" and left the UK in uncomfortable isolation.

Nowhere is the interplay of politics and economics more fascinating than in the battle of EMU. One of the book's most topical chapters asks the basic questions about EMU which the Delors Committee took for granted though, alas, on some of the most disputed ones (such as whether it will make the poor poorer), no answers are given.

On EMU itself, the authors are cautious about the likely outcome, pointing to important differences of view not just with Britain but between the West Germans, the French and the Italians. But on Britain's likely response to attempts to boost the powers of the European Parliament in conjunction with monetary union, they are quite clear: "Britain will not be seducible this time as the lure of the great market seduced it" in 1985.

Increased democratic accountability, the authors argue, should come not through greater powers for the European Parliament but through making the Council of Ministers more responsive to national parliaments. There are good arguments on both sides of that debate, and the negotiation about changes to Community institutions will doubtless be extremely difficult. But the worry is that Britain may once again find itself left behind in Europe.

Apart from one or two annoying repetitions (we are told three times that the biggest mergers have been in defence-oriented companies), the seams in the writing do not show. The style is pleasing and the book studded with many a *bon mot*. This book should be read soon, and not just because the events it describes so lucidly are moving so fast.

Michael Franklin

The author is chairman of the West European Programme at the Royal Institute of International Affairs.

OBSERVER

Treasury in Peking

■ From one of the highest vantage points in Asia at the top of I.M. Pei's new 72-storey Bank of China building in Hong Kong, Sir Peter Middleton, the British Treasury's top mandarin, was able yesterday to dwell on two government preoccupations.

On the horizon there was the mainland of China, which will take over Hong Kong in 1997. Squatting just beneath him was the aggressively functional headquarters of the Hongkong Bank, whose possible marriage with the UK's Midland is likely soon to be back in the headlines – on or off.

In one of his jovial moods, Middleton was unwilling to admit, when we caught him at the residence of Sir David Wilson, the Governor, that any such issues were behind his trip to Hong Kong and, tomorrow, to Peking.

"I come every couple of years, just to look around," he said, and laughed off the suggestion that he was probably the first top British official, apart from a rather special mission by Sir Percy Craddock of the Prime Minister's office, to visit the Chinese capital since the events in Tiananmen Square last June.

Unusually, for a British official, Middleton survived yesterday's meeting with Chinese officials without being harangued about either Hong Kong's alleged subversionary misdeeds or the British passports package. "They were quite bullish about Hong Kong and talked about how well the place is run," he said of his Bank of China hosts.

Next week in Peking, Middleton will be visiting the Finance Ministry and talking to top government personnel chiefs. "How to run a bureaucracy is always a hot subject when I'm there and I shall probably spend more time on that than on finance," he said. "They have been reforming their civil service and we'll probably talk about some of the British ideas for organising executive branches of government."

Then it is off to Xian for a couple of days looking at the Qin dynasty terracotta soldier relics. Obviously all quiet on the home front.

Cure at last

■ Hiccups are on the way to being cured, according to Drug and Therapeutics Bulletin, published by the Consumers' Association.

The Bulletin reports that two medicines, both used for years for other medical problems, show distinct promise in the hiccup field. One man who had suffered from persistent hiccupping for 18 years was cured after taking baclofen – a drug for treating muscular spasms. It is made by Ciba-Geigy of Switzerland. Nifedipine, a heart formulation made by West Germany's Bayer, showed similar results when given three times daily to a group of patients at an unnamed military hospital.

Runs in the sun

■ At Fenners on Monday Asif Din demolished the Cambridge University bowling by hitting 100 not out in 39 minutes. It must be something to do with the sun, for so far this season there have been runs all over the place.

A late Easter, pitches made for batting, low-seamed balls and radiant weather have produced an abundance of high scores. They have not been confined to the one day matches and are as plentiful in the four-day county games.

Consistently bad though Yorkshire's cricket has been in recent years, it is not often that the team has faced a score on the scale of Northampton's 498 for 3 declared. That was in the bright sun at Headingley in Yorkshire's opening championship match. Lamb (235) and Fordham (206 not out) are both sun-lovers. Lamb flourishes in the West Indies and Fordham, another product of Durham University's young cricketers' nursery, has taken to spending his winters in Australia. A lot of other people have already hit centuries.

But perhaps we should not make too much of the sun-runs link yet. David Gower likes the sun as much as anyone, but his best Test summer in England (average 81.33) was in 1985, which was wet and nasty. In the same year Ian Botham achieved his record of 80 sixes.

There is also the matter of favourite places, such as Taunton. That was where Graeme Hick hit his 405 for Worcestershire in 1988, overshadowing even Viv Richards' 322 against Warwickshire in 1985 and second only to the 424 which McLaren scored against Lancashire at Taunton one hundred years before.

Still, we have sun, we have Taunton and we have a bit more confidence now. This could be a record summer.

"I'm voting Tory to keep alive the two party system."

Self-employed

■ Bernard Weatherill, the Speaker of the Commons, made it clear yesterday that he does not intend to get involved in any controversy over "docking" the Parliamentary salaries of MPs who refuse to pay the poll tax or community charge.

For income tax purposes, MPs are in the "self-employed" category. Thus local authorities will be unable to ask their employer to deduct unpaid poll tax at source.

MPs who refuse to pay the poll tax will be getting letters from their bank managers, not from the Speaker.

Twinning

■ A friend who used to work in the Foreign Office has come up with a new idea for furthering east-west co-operation. He says that the main countries in western Europe should each take a country in eastern Europe and sponsor it or, if you like, twin with it.

West Germany has already taken East Germany. Britain might take Poland, France could have Czechoslovakia, Italy might take Hungary and Spain could look after Romania. There might not be too much competition to twin with Bulgaria and there could be some argument between Britain and France about who has the closer links to Poland. But that is the general drift. The sponsoring country would promote development.

When you think about it, it is not such a wild idea.

Always a word

■ From a staff magazine: "The so-called comedian was terrible. All his jokes were genuine antiques and he seemed to be suffering from laryngitis. His performance was indescribable." "Hoarse chestnuts", perhaps?

Though the French economy is buoyant, much of the improvement has been made on the backs of wage earners. **Ian Davidson** reports

Franc dur, moeurs douces

The French are a perverse and ungrateful people, as President François Mitterrand has reason to know. *After a disastrous* excursion into a socialist dead-end in 1981-83, he has sagely presided over a liberal but rigorous economic recovery programme, which has inexorably produced, year in and year out, a steady turn-around in the French economy. It was not surprising that he won a crushing victory in 1988 for a second term in the Elysée, nor that he and his Prime Minister, Mr Michel Rocard, continued to enjoy unprecedented buoyancy in the opinion polls for almost two years after those elections.

But now, when the full extent of the French economic achievement is just beginning to win the accolade of public recognition from the outside world, domestic public support for the President has abruptly started to sag, with the steepest drop in his poll ratings for four years.

Just why, is a matter of contradictory speculation. Some suggest that the French are dissatisfied with the President for spending too much time on international affairs, at the expense of sensitive domestic issues like immigration and racism. Others imply on the contrary that he is being censured for too partisan an interference in the affairs of the Socialist Party, when he should be above party matters. Some say the French are indignant over the the recent political amnesty law, which just "happened" to protect many *local party officials*, mostly Socialists, from prosecution for corruption offences.

The French economy, by contrast, is a success story about which there is little ambiguity. It has recently received an enthusiastic endorsement from that doyen of economic authorities, the Paris-based Organisation for Economic Co-operation and Development.

The OECD praises the Government's anti-inflation strategy, which it describes as one of "competitive disinflation," and points out that France has repeatedly outperformed the expectations of outside forecasters, including the OECD's own, in terms of buoyant growth rates, declining inflation, and rapid industrial investment. Unemployment remains a significant problem, but the trade deficit is really quite small in relation to the size of the economy. The best future economic strategy, it says, is a continuation of the present one, based on a strong franc within the European Monetary System.

The determination of Mr Pierre Bérégovoy, the Finance Minister, to stick relentlessly to a virtually fixed parity with the D-Mark, has taken years to gain public credibility. It now appears to have paid off.

Not merely has the Government brought the French inflation rate steadily down, closer and closer to that of West Germany. More fundamentally, it has erased the old stigma, justified throughout the Fourth Republic and intermittently during the Fifth, that France's natural instinct is for competitive devaluation and the easy indulgence of gentle inflation. Instead, it has established a new assumption, that France has now acquired the right to be regarded as a hard currency country.

The temporary stresses attendant on the prospective unification of the two Germanys are casting a new light on the French achievement. French officials glow with satisfaction when they point out that, because of the unprecedented situation in West Germany, French inflation may be slightly below the German rate this year. And Mr Bérégovoy has taken national pride to the brink of hubris, when arguing that French interest rates may not need in all circumstances to be completely tied to German interest rates.

For investors, too, the situation looks rosy, largely because France has been steered under the auspices of the Socialists in the direction of financial liberalism and deregulation. The stock market is extremely

France has now acquired the right to be considered a hard currency country

buoyant, with corporate profits rising by about 20 per cent last year, and the expectation of a similar increase this year. Strong foreign investor interest is likely to push the stock market still higher, while important French companies are becoming increasingly active players in the international acquisition game. French voters and politicians may still harbour a residual nostalgia for Colbertism and state intervention, but the strategy of competitive disinflation and the hard franc has ruled it out as a practical option.

But how solid are the foundations of this transformation from state intervention to an increasingly liberal market economy? What about unemployment, which seems to be stuck at around 2.5m? What about the heavy burden of public expenditure, which is significantly above that of some of France's key competitors like West Germany? What about the costs of the social security system, which threaten to run out of control? And what about the trade deficit which, despite recent improvement, is a worrying question mark over French competitiveness?

Such questions are inevitably answered in contradictory ways.

Jean-Paul Fitoussi, an academic who heads of the economic institute Observatoire Français des Conjonctures Economiques (OFCE), is optimistic about the French economic outlook for two reasons: the domestic situation is fundamentally healthy and the international constellation is ideally favourable for rapid economic growth in Europe.

The budget deficit is now small in relation to GDP, while the public debt is one of the smallest in the industrialised world. Investment in the productive sector has grown a bit faster than in some other countries in the past three years, and so is more modern, and the restoration of large profit margins in the corporate sector gives companies room for manoeuvre to meet the competition and increasing market share.

The reverse side of the 10-year economic recovery since the 1979 oil shock, is that the cost has been entirely borne by wage-earners, either in the form of mass unemployment, or through a substantial reduction in the wage share of national income. As a result, there is a widespread sense that income distribution has become inequitable. But since growth prospects are now optimal, that inequity can start to be rectified. Unemployment will not fall unless growth is faster than 3 per cent; the Government is now forecasting growth of 3.2 per cent this year; but Mr Fitoussi believes it will be more like 3.7 to 3.8 per cent, as in the past two years.

Mr Yves Lyon-Caen, who holds a senior post in the Prime Minister's cabinet, is – interestingly – more cautious than Mr Fitoussi. The recent trend is very encouraging, in inflation, investment and even in foreign trade; but there is a much less satisfactory historic backlog which has still not been worked off. Unemployment is still too high, the quality of productive capital, both hardware and software, is inadequate compared with Germany, and the foreign trade

It is a matter of common observation that French manners have softened

balance remains fragile: the improvement in the first quarter is too sharp to be reliable.

Looking ahead, he sees two major problems and a secondary worry. The worry is the recent decline in rate of self-financing of industrial investment; the Government regards this as a key indicator of industry's resilience under pressure. The problems are the excessive weight of public spending, despite the restraint of central government, and the difficulties of controlling and financing rising retirement and health costs. The difficulty of both these problems will be critically affected by the rate of economic growth.

Christian Saint-Etienne – an economist at the Crédit Lyonnais bank – offers a third, contrasting opinion. He acknowledges the substantial improvement in the shape of the private sector, though he remains anxious at the backlog of past errors; and he believes that nothing significant has yet been done to tackle the serious problems of public finance and education.

The restoration of corporate profits still has to overcome the accumulated handicap of French companies' indebtedness; the improvement in the foreign trade balance is an uphill struggle to recover market shares lost in the early 1980s; and the strategy of foreign takeovers may be daring, or it may turn out to be dangerous. In any case, the private sector recovery is recent and therefore fragile; it needs to continue for several more years to be robust.

By contrast, the public sector still has grave problems. Public spending is significantly higher than in Germany, for example, largely because of the greater weight of social security transfers; but the competitive environment of the European Community's Single Market will be to force the French state to reduce a wide range of taxes, on spending (VAT), on savings, on companies, and even on personal incomes, where the overall tax wedge is higher than in other industrialised countries.

In the long run, Mr Saint-Etienne believes, those countries will dominate which have the best tax and education systems; which means Germany and Japan. In France, one third of the young leave school without qualifications; spending on higher education is half that in Britain or the US; and far fewer engineers are trained than in Germany.

Which brings us back to President Mitterrand's popularity rating. It is a matter of common observation that French manners have softened with the years. Some people still find Parisians hard and aggressive; they should have been here 25 years ago.

Perhaps the improvement in French urbanity is due to straight prosperity, perhaps to the recovery of national pride. But if France's new-found standing as an economic strong man in Europe, has been bought at the expense of the working class and at the expense of President Mitterrand's socialist preferences, then sooner or later there may be a political bill to be paid.

Comparisons of the trend of tax & social insurance contributions

as a percent of GDP

	1970	1975	1980	1985	1988
France	35.1	36.9	41.7	44.5	44.3
W.Germany	32.9	35.7	38.0	38.0	37.4
Canada	31.3	32.4	31.6	32.9	33.6
US	29.2	29.0	29.5	29.2	*30.0
Italy	26.1	26.2	30.2	34.4	37.1
Japan	19.7	20.9	25.5	28.0	*30.2
UK	37.0	35.0	35.3	37.8	37.7
EC (unweighted average)	30.8	33.4	36.4	39.4	*40.6

*1987

Source: OECD estimates

* Projection ** First 3qtrs

LOMBARD

Hurdles for Emu to jump

By Martin Wolf

"BECAUSE of the risks of systemic instability in the transition, it is to be recommended that the Community prepare for a relatively rapid passage from the beginning of Stage 1 to the definitive EMU, including a single currency." This was the recommendation on economic and monetary union put forward by the Commission and discussed by finance ministers in March.

There is talk of agreement on a new treaty in 1991 and ratification by the end of 1992. Then, after dallying briefly in the second stage proposed by the committee on Emu chaired by Mr Jacques Delors, the EC is to move swiftly into the third stage, with a single currency, to be issued by EuroFed, the EC's new central bank.

Assume that there is, indeed, to be a single currency. It follows that at some date – not too far in the future, according to the Commission – citizens of the EC will be forced to exchange their national currencies for its Euro-equivalent. (Note that rebasing the national currencies and calling them Ecu-pound, when in the UK, and Ecu-franc, when in France, would not alter the economics. The new currencies would be quite different from the old ones, even if they were to retain the same names.)

The more sensible UK subject may well not fight for the pound in his pocket (but perhaps for the Queen in her Parliament, instead). Germans may be less happy about giving up the D-Mark for a currency that is unlikely to be as good. They must be well aware that a central bank with representatives from Greece, Portugal, Spain, Italy and the UK will not, in practice, have the same devotion to monetary stability as the Bundesbank.

Quite apart from the political difficulties, which are obvious enough, there are also some important economic problems, as Mr Tim Congdon indicated in The Times on April 17. What is to happen to the mass of contracts now denominated in national currencies? Consider just two of these: bonds and pensions.

At the moment rates of interest on five year government bonds in the EC vary from 9.04 per cent in West Germany to 13.75 per cent for Spain (with Greece and Portugal left aside). France is on 10.38 per cent, Italy on 11.84 per cent and the UK on 13.26 per cent.

If it were known that debt service on existing bonds were to be paid in future in Ecu at the exchange rates at which the currency conversion itself would take place (which seems much the most likely solution) windfall gains would accrue to owners of bonds denominated in soft-currencies. Since Ecu interest rates are almost certainly going to be higher than those in the hard currencies, owners of bonds denominated in D-Marks and Dutch florins would suffer corresponding losses.

Taxpayers in soft-currency countries would lose; those in hard-currency countries would gain. One might suppose that taxpayers can look after themselves. But what of corporations? A corporation with long term liabilities in a soft currency may find the real burden of debt service considerably – perhaps ruinously – greater than it had bargained for.

Then there are pensions. In the UK many company pension schemes are contractually obliged to uprate their pensions by no more than 3 per cent a year. This makes life easier for the schemes, since inflation has been higher than the threshold. If their schemes do well, pensions can then be uprated *ex gratia*.

Suppose that sterling turns into the Ecu. The Germans would certainly be very upset if Ecu inflation were much above 3 per cent a year. The obligation on pension schemes would then be more onerous, since British companies would be *contractually obliged* not to cheat their pensioners. What wailing and gnashing of teeth there would then be in the boardrooms!

These problems reflect the fact that the move to the Ecu will be a large disinflationary shock to some Europeans and an inflationary shock to others. It will be interesting to see what happens when Germans realise that they are to lose the D-Mark and still more of the value of their bonds than unification has lost them already.

LETTERS

The worker and Polish privatisation

From Mr Robert Oakeshott.

Sir, If what I was hearing in Poland last week has any validity, Robert Rice's important article ("Union's fears prolong drafting of privatisation rules in Poland," April 30) may be at fault – not for what it says but for what it leaves out.

He presents a stark policy conflict between the Government's privatisation proposals and those "trade unionist MPs" pressing for these to be "amended to provide for greater worker participation in the ownership and management of state enterprise after privatisation."

It is true that a full-blooded set of privatisation counter-proposals has been drawn up and they do have the thrust towards greater worker participation which Robert Rice emphasises.

But I gathered last week in Warsaw that only a minority in the lower house of the Polish Parliament supports the counter-proposals.

In particular, or so I learnt, only a small minority of those MPs who are linked to the influential Self-Management Activists' Association (SMAA), are supporting them. The majority, with the backing of Dr Pawel Ruszkowski, the association's general secretary outside the Parliament, have broadly accepted the Government's proposals and are seeking, in discussion with ministers, no more than some amendments of detail.

Since it is Dr Ruszkowski and the SMAA-linked MPs who have made the running in favour of employee ownership over the last six months, his views, and those of a majority of the MPs who have links with him, may well prove decisive.

However, I should declare an interest. We, Job Ownership Ltd, entered into an agreement with the SMAA last year about a joint programme of work.

Given some amendments of detail, we share Dr Ruszkowski's view that his objectives can be achieved within the framework of the government privatisation proposals.

A case for giving employee ownership a fair wind in any privatisation exercise can be seen in a table on pre- and post- privatisation profit performance in the Treasury's briefing paper, Privatisation in the UK, published in May last year.

It shows the profit increase of the former National Freight Consortium after its privatisation to have been far superior to that of any other privatised business.

As I am sure your readers know, NFC at privatisation was the subject of an employee buy-out. More than 80 per cent of its shares had been bought by employees. Financial institutions which were lucky enough to get their hands on a part of the remaining equity made a splendid killing.

It is not clear that employee ownership is doomed to fail in Poland – and indeed elsewhere in eastern Europe – or that NFC's success will turn out, historically, to be one of a kind.

Robert Oakeshott,
Executive director,
Job Ownership Ltd,
9 Poland St, W1

Treating health markets in isolation

From Mr John Smith.

Sir, Why do economists look at health care (hospital) markets differently than other markets, even when commenting on the value of a market approach? ("Casualty of the markets," April 27).

Could it not be that an unrestricted market like the US involves consuming health services at even higher levels? Who says 11.2 per cent of GDP is too much? Not the US market apparently.

And what would the UK market spend on health care if unrestricted? More than 6 per cent, you can bet!

John Smith,
Booz Allen & Hamilton International (UK) Ltd,
100 Piccadilly, W1

Nacro's special funding needs

From Ms Vivien Stern.

Sir, Mr Michael Howard (Letters, April 28) attributes the cut in his department's budget for youth training to a number of factors including "increasing contributions made by employers."

In the case of the National Association for the Care and Resettlement of Offenders' schemes, however, the reductions in funding per place of between 10 per cent and 30 per cent cannot be justified. It is unrealistic to expect employers to make up the shortfall on specialist training programmes for difficult young people.

Mr Howard refers to Nacro's two-year "surplus of some £5m." He may have in mind the financial provision – 6 per cent of two years' turnover on our schemes – which we have made to cover our extensive liabilities if we have to close employment or youth training schemes dependent on one-year government funding contracts which carry one month's notice of termination.

Vivien Stern,
Director,
Nacro,
169 Clapham Rd, SW9

Establishing a hold on Thatcher

From Mr Rory Montgomerie.

Sir, If being a part of the British Establishment means, *inter alia*, the jettisoning of Margaret Thatcher as leader of the Conservative Party (Observer, April 30), I am pleased to re-define my establishment status as no more than semi-detached.

The logic behind the view that Margaret Thatcher is a liability to the party defies any sound analysis of current economic problems. It is as if the UK's problems could be solved by a change in the current leadership or style of government.

The fact remains that the UK has enjoyed a non-stop party from 1982, and now the hangover has set in with widespread pain as the natural effect.

What a new Tory party leader could do to tackle these problems that the present leader is not already doing remains a mystery to me.

The depressing economic facts borne out of the classic UK stop-go pattern of growth would remain the same: inflation rising to 10 per cent by the autumn, money supply growth at 18 per cent and the trade deficit expected to be at least £15 billion this year. What alternative to high interest rates could work and, if none, why change the leader merely to maintain current policies?

As a country we have never had the searing experience of hyper-inflation endured by other countries such as pre-war Germany, so we remain infuriatingly complacent about attacking its root causes.

We pay ourselves too much at all levels and we spend as much as we are able to borrow, as individuals, displaying little notion of proper financial rectitude.

If one accepts therefore (as one must) that the current leadership is correctly tackling these problems correctly in a determined manner what possible benefit is to be gained from removing Mrs Thatcher?

The only certainty about removing Mrs Thatcher would be to increase the risk that tight monetary control would either be abandoned or, at least, carried out with diminished vigour.

A change of face would benefit only the socialist cause – perhaps the next fashion of the British Establishment.

Rory Montgomerie,
3 Finsbury Ave, EC2

'Bolshy' view of Israeli farms 'misleading'

From Mr Zvi Alon.

Sir, Mr Martin Lever (Letters, April 26) only superficially deals with your previous article on Israel's "bolshevik" agriculture system.

The negative government controls described in your article are misleading and mischievous, specifically since 70 per cent of agricultural production in Israel is in the hands of the private sector.

Indeed, there are strong marketing boards, but their prime role with the market-pricing system is not to fix prices but to establish a safety net with minimum guaranteed prices so as to prevent collapse. In general, Israel's marketing boards are hardly different from the equivalent boards in Britain.

From the point of view of subsidies, levels of less than 15 per cent in Israel are definitely better than the 60-70 per cent levels operating in the Common Market.

On these matters alone, Israel's agricultural sector is no more "bolshevik" than the common agricultural policy of the Commission and the equivalent policies here in the UK.

Zvi Alon,
Counsellor for agricultural affairs,
Embassy of Israel,
2 Palace Green, W8

FINANCIAL TIMES
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CURB ON COMPUTERS MAY BE LIFTED

US to ease exports to East Europe

By Nancy Dunne in Washington

THE Bush Administration yesterday said the list of strategically sensitive exports now covered by multilateral licensing requirements should have "a complete overhaul" by the end of this year.

In a prepared statement, the White House acknowledged that "careful study indicates that most of the goods and technologies that we currently control to eastern European and Soviet destinations are of low strategic value and should be decontrolled."

However, the US will propose total elimination of only 30 of the 120 product categories covered by controls and a "substantial" reduction of 13 additional categories. Specifically, Mr Marlin Fitzwater, the White House spokesman, said the Administration would support an end to controls on exports of off-the-shelf personal computers and some mainframe computers.

The recommendations are to be presented next month to a high level meeting of the Co-ordinating Committee on Multilateral Export Controls. They are the result of a comprehensive study, initiated by the US in January, and, according to Mr Fitzwater, are backed by all US security agencies.

He said officials would begin immediate talks with allies about the proposed changes.

The Administration has been prompted to ease export controls by European governments, which see little reason for most export licensing in eastern Europe. However, it is by no means certain that the proposals will be as far-reaching as most of the European allies would like.

The White House is proposing differing treatment for the Soviet Union and those east European countries which agree to adopt safeguards against diversions to the Soviet Union. Generally, European governments want "differentiation" only for the level of products more sophisticated than those permitted into China.

The east European governments which comply with US demands will be given greater access to modern fibre optics equipment and some microwave telecommunications equipment.

Mr Richard Barth, a member of the National Security Council, said Cocom would continue to have one general control list "but there would be favourable treatment accorded to some of these destinations as Cocom partners agree to them." This, he said, could include faster processing time and different control parameters that would allow more easy shipment by national governments.

Rival Hungarian parties announce pact

By Nicholas Denton in Budapest

HUNGARY'S two strongest political parties yesterday announced a pact to end their bitter rivalry, at the inauguration of the country's first democratically elected parliament in more than 40 years.

Mr Arpad Goncz of the opposition Alliance of Free Democrats was elected interim President of Hungary, with the support of the conservative Hungarian Democratic Forum, which won last month's election and will lead the next government. The Forum also promised to back Mr Goncz in presidential elections this year.

In return, the Free Democrats agreed to changes in the constitution to allow crucial economic legislation to go through parliament by a simple majority. Under the present rules many laws require a two-thirds majority, effectively giving the Free Democrats the power of veto.

The previous rivalry between the two parties had threatened the country's political stability.

Mr Jozsef Antall, president of the Forum and due to be appointed Prime Minister today, said the constitutional amendments agreed yesterday were necessary to make the country governable. The economic crisis required, he said, that "government and opposition work together as good partners."

Mr Peter Tolgyessy, leader of the Free Democrats in parliament, said: "The country should have a President who demonstrates its unity." Mr Goncz was "a man who will not divide our nation between parties."

There had been fears that the acrimonious campaign for last month's elections would poison relations between the parties to the extent that the Forum would abuse its dominance of parliament and the Free Democrats would obstruct legislation.

Concerns about these dangers to political stability have led foreign banks to withdraw money from deposits at the Hungarian National Bank. Yesterday's reconciliation should reassure them that Hungary is closest among east European countries to a stable bipolar political system underpinned by a broad consensus.

The opening session of parliament was also the occasion of the swan song of Mr Miklos Nemeth, the outgoing Socialist Prime Minister. He proclaimed his and the previous government's part, which many speakers acknowledged, in the dismantling of the Communist system.

"The revolution happened not only because people did not want to live in that way but also because the Government did not want to govern in that way," said Mr Nemeth. He did not criticise the electorate's ingratitude but hoped that the new government would have "more tolerance and patience from the people than we did."

Arpad Goncz, interim President of Hungary, at the inauguration of the country's first democratically elected parliament in 40 years

Lithuania seeks help to open Soviet talks

By Quentin Peel in Moscow

LITHUANIA yesterday appealed to Chancellor Helmut Kohl of West Germany and President François Mitterrand of France to help open negotiations between Moscow and the breakaway republic.

In Paris, a spokesman for the Elysée palace reacted by saying that Mr Mitterrand had ruled out French mediation in the dispute, although France was willing to host negotiations if the two sides wished.

Mr Vytautas Landsbergis, the Lithuanian president, made his appeal in simultaneous letters to the French and West German leaders.

In the clearest statement yet of the Lithuanian desire to talk, he said that "everything is negotiable except the question of the restored independence of the Lithuanian state."

Mr Landsbergis said implementation of decisions taken by the Lithuanian parliament could be suspended if they "caused difficulties" for Moscow.

He asked Mr Kohl and Mr Mitterrand, who last week jointly called for negotiations to begin, to transmit the Lithuanian offer to Moscow – a startling indication of the lack of communications between the two sides.

There was no immediate reaction from the Soviet side but the sticking point appears to be whether the independence restoration itself – decided by parliament in Vilnius in March – must be suspended.

Because it was not a straightforward declaration of independence, but a restoration of the pre-1940 status of the republic before it was invaded by the Red Army, any such decision is virtually impossible for the Lithuanians without accepting the legality of the invasion.

The Kohl-Mitterrand initiative, proposing a freeze on implementation of any subsequent Lithuanian decisions, is a possible face-saving device for both sides to reopen talks. Pressure on Moscow increased yesterday with the US Senate declaration that a US-Soviet trade pact would not be approved while Lithuania was under economic blockade.

Although the Soviet authorities have only formally announced restrictions on energy supplies to the republic, Lithuanians say almost all imports from the USSR have been suspended. They are now concerned at the dwindling supplies of medicines and rationing of some foodstuffs.

● In Latvia, nationalist leaders confirmed plans to restore their independence constitution of 1922.

The Latvian Popular Front proposal would restore only four basic provisions of the old constitution and then confirm all Soviet legislation that does not contradict it, attempting thereby to avoid Moscow's wrath and allow independence negotiations to begin.

As with both Lithuania and Estonia, the Latvians refuse to submit to the provisions of Mr Gorbachev's new Law on Secession, which would require them to hold a referendum, win the support of two-thirds of all registered voters, and ultimately win the support of all the Soviet republics in the Congress of People's Deputies in Moscow. They claim it does not apply because they were illegally invaded by Soviet troops in 1940.

Sniping at Bush, Page 8

Thief grabs £292m in London daylight robbery

By Richard Donkin and Andrew Freeman in London

THE Bank of England injected extra liquidity into London's money markets yesterday after a City messenger was robbed at knifepoint of Treasury Bills and certificates of deposit worth £292m ($478m). The Bank also agreed to protect the owners of the bonds against any losses.

Some £250m of additional liquidity was introduced into the markets, although Bank officials refused to connect this directly with the robbery.

The CDs with a face value of £121.9m and Treasury Bills worth £170m were stolen when the messenger was held up in the City of London, only yards from the Bank of England, the central bank.

The Bank issued an immediate alert to warn banks to beware of anyone trying to raise a loan using the certificates as collateral and said it would be "extraordinarily difficult" for anyone to succeed in such an attempt.

The messenger, from Sheppards money brokers, a subsidiary of Cater Allen Holdings, was attacked at about 9.45am in King William Street as he was returning to Sheppards' office in Gresham Street. Police described the assailant, who ran off in the direction of Cannon Street, as black, aged between 25 and 28, wearing a brown bomber jacket and brown trousers.

While the theft appeared spectacular – one of the certificates of deposits was for £5m – the thief will find difficulty spending the haul. Even if he were part of a sophisticated deception involving loans already in place awaiting the bills as collateral, it would take a confident fraudster to present the certificates at a bank. Central banks worldwide were notified of the theft.

The messenger, who has not been named, was unhurt in the robbery which appeared to result mainly in the embarrassment to Sheppards, one of the oldest of London's nine licensed money brokers, which refused to comment yesterday.

The company, formerly part of Sheppards Stockbrokers, was sold to Cater Allen by its former owners BAII in 1988.

Mr James Barclay, chairman of Cater Allen, said: "I don't think it is any big deal." It was "highly, highly unlikely" that anyone would profit from the theft: "It is not as if it is money that you can spend."

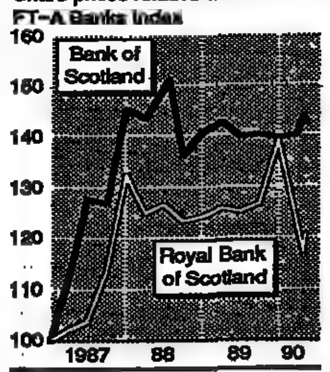
The robbery came just months before the City is scheduled to adopt an electronic trading system for money market instruments which will eliminate the need to carry large amounts of paper certificates around the streets, a practice which harks back to the days of Dickens. Some 50,000 certificiates worth an average of about £30bn are transferred daily between banks and brokers.

The Central Moneymarkets Office (CMO) trading system is to be modelled on the existing Central Gilts Office, an automated book-entry trading and settlement system for UK Government bonds founded at the time of the Big Bang changes in 1986. Currencies, Page 40

THE LEX COLUMN

Giving credit to Scottish banks

It is looking more and more as if last week's alarmist profit warning from Midland Bank was a one-off. Midland is not well capitalised, has a nasty interest rate exposure, and is more vulnerable than most to any weakening in margins or slowdown in lending. By contrast, yesterday's interim figures from the Royal Bank of Scotland confirm last week's message from Bank of Scotland. Bad debts are rising, but there is no reason to panic. If a couple of the country's more conservative banks really are perturbed by the deterioration in credit quality, they would surely not have announced dividend increases of close to 20 per cent.



Of course, even canny Scottish bankers can get it wrong. Unlike Midland and Lloyds, their Third World debt exposure is yesterday's problem. Unfortunately, just as this shrinks into insignificance their exposure to highly leveraged transactions has mushroomed. Even though the Royal Bank has reworked its figures to prove that this type of business is not quite so big after all at £500m or so, this still sounds a lot when set against shareholders' funds of £1.5bn. The reluctance to detail the general exposure to the retailing industry is an additional worry.

Nevertheless, unless the UK economy slips into a prolonged recession, these concerns should not haunt bank share prices in the way Third World debt did. Meanwhile, there is considerable defensive appeal about shares that can promise double digit dividend growth in the current climate.

Fund managers

At least one thing never changes in the City: the seductive spell British fund managers cast over French and German banks. A degree of scepticism about the phenomenon is in order after looking at Credit Commercial de France's deal to take majority control of Framlington by mid 1991.

At about 3 per cent of funds under management, the price of this acquisition look a shade less than the most expensive such deals, struck in 1988 by such as Dresdner Bank. Yesterday's agreement appears, also, to give CCF a way out if things fail to work. But the initial £19m payment still looks a lot to give for 25 per cent of a business which made only £6.7m before interest and tax in 1989. If the industrial logic were clear, it might look justifiable. Yet by CCF's own admission, cultural obstacles preclude it from, say, selling Framlington unit trusts through the Italian sales force it has created with Cassa di Risparmio di Torino. Doubtless long-term CCF's 350-branch retail banking operation can find uses for Framlington-designed products; but judging by CCF's share price, the Paris market seems to think CCF will be taken over by Deutsche Bank before then.

US insurance

It took only 34 days for Torchmark, from Alabama, to put the fear of God into the much bigger Texas-based insurer American General with a proxy fight. American General is now up for sale for $7bn. So Hoylake and its acolytes are talking nonsense in alleging that BAT only escaped because insurance regulators in the US are prisoners of the companies they regulate, like BAT's Farmers. American General is bigger than Farmers; and its customer-base of low-income families makes its fate a sensitive matter. Yet, significantly, American General evidently could not rely on the insurance commissioners to shelter it from takeover.

Williams

In most respects, the sale by Williams Holdings of its UK and Irish paints business is a genuinely attractive deal. It takes the company out of number two position in a weak market, reducing its exposure to the UK consumer from 40 per cent of sales to 25 per cent. It leaves it with the more attractive and higher-margin parts of its paint and DIY business, bought at a claimed net cost of £130m and producing pre-tax profits last year of £36m. Perhaps above all, it puts net cash on the balance sheet in place of 60 per cent gearing. The market is rightly cautious of any company with its roots in the 1980s: but it is also learning the important distinction between those with debt and those without.

Then again, it should be recalled that the dependence on the UK consumer which Williams is now reducing was the product of its own recent strategy. Its involvement in paint, at a gross cost of over £400m, began only three years ago. It is perhaps unfair to blame lack of strategy in a company which sees its chief virtue as opportunism. But its next acquisition – whatever it may be – will deserve scrutiny, particularly in terms of the stated criterion of market leadership in manufactured products.

After yesterday's 4 per cent jump to 250p, the shares have outperformed the market by almost 20 per cent in the past three months. This is much the strongest rebound since they started to slide two years ago, and puts the current year multiple at about 8.5. This may be all they deserve, particularly since the growth outlook is still meagre compared with such as Hanson.

Kwik Save

Kwik Save has outperformed the food retailing sector by a remarkable 80 per cent in the past three years. Investors have liked its concentration on low cost goods and small stores while its competitors have splashed out on expensive superstores which sell everything. It was the more disturbing to see interim pre-tax margins yesterday decline from 6 per cent to 5.3 per cent, especially when gross margins were under little pressure.

There might be more confidence in Kwik Save's ability to control costs if it had a finance director. There is room for the Kwik Save formula in food retailing, especially as the feared cut-price competition from Aldi currently consists of just one store. But after yesterday's shock, the group will now have to deliver on its assurances that the cost problems were peculiar to the first half, or suffer a permanent derating. After yesterday's 9 per cent fall, the shares are on a prospective p/e of just under 13, assuming £86m for the full year. If that target can be achieved, the shares should retain some defensive attractions; the group's entire second half store opening programme probably costs little more than a single Tesco superstore.

Brussels seeks powers

Continued from Page 1

developments in each case and that the injunction powers, or "interim measures," would not be used until the airlines involved had first had their say.

They added the proposals had first been requested during a recent meeting of EC Transport Ministers and was not the result of individual airline pressure.

The Commission initiative also coincided with a submission yesterday to the UK's Monopolies and Mergers Commission from Trans-European Airways, a small Belgian carrier, claiming that the planned British Airways, KLM and Sabena partnership through Sabena World Airlines(SWA) "is intended to crush opposition from smaller airlines".

Mr Georges Gutelman, chairman of TEA, said that SWA was trying to take advantage of a two year gap before the liberalisation measures would come into effect.

WORLDWIDE WEATHER

		Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	S	20	68	Dallas †	C	15	59	Madeira	F	19	66	Prague	S	20	68
Algiers	C	[illegible]	66	Dublin	S	19	66	Madrid	F	19	66	Reykjavik	F	6	43
Amsterdam	S	24	75	Dubrovnik	S	21	70	Majorca	S	22	72	Rhodes	S	19	66
Athens	C	20	68	Edinburgh	S	14	57	Malaga	C	18	64	Rio de Janeiro		–	–
Bahrain	S	33	91	Faro	S	22	72	Malta	S	20	68	Rome	S	20	68
Barcelona	S	20	68	Florence	S	22	72	Manchester	S	23	73	Salzburg	S	22	72
Belfast	S	20	68	Frankfurt	S	25	77	Melbourne	C	19	66	S'Francisco †	S	12	54
Belgrade	F	20	68	Geneva	S	21	70	Mexico City		–	–	Santiago		–	–
Berlin	S	22	72	Gibraltar	C	17	63	Miami †	S	23	73	Seoul	C	14	57
Biarritz	S	21	[illegible]	Glasgow	S	22	72	Milan	S	23	73	Singapore	F	28	[illegible]
Birmingham	S	19	66	Guernsey	S	[illegible]	66	Montreal †	S	8	46	Stockholm	S	24	75
Blackpool	S	24	75	Helsinki	S	18	64	Moscow	F	7	[illegible]	Strasbourg	S	24	75
Bombay	S	[illegible]	90	Hong Kong		–	–	Munich	S	21	70	Sydney	S	24	75
Bordeaux	S	28	[illegible]	Innsbruck	S	22	72	Nairobi	S	25	77	Tangier	F	20	68
Boulogne	[illegible]	24	75	Inverness	S	22	72	Naples	S	24	[illegible]	Tel Aviv	F	20	68
Bristol	S	23	73	Isle of Man	S	17	63	Nassau		–	–	Tenerife	F	20	68
Brussels	S	25	77	Istanbul	F	17	63	Newcastle	S	18	64	Tokyo	C	13	55
Buenos Aires		–	–	Jersey	S	23	73	New Delhi	F	28	82	Toronto †	S	4	39
Budapest	F	22	72	Johannesburg	S	16	61	New York †	F	15	59	Tunis	F	21	70
Cairo	S	23	73	Las Palmas	S	21	70	Nice	S	21	70	Valencia	F	20	68
Cape Town	F	17	63	Leeds	S	20	68	Nicosia	S	20	68	Venice	S	22	72
Cardiff	S	22	72	Lisbon	S	19	66	Oporto	F	23	73	Vienna	S	21	70
Chicago †	[illegible]	[illegible]	[illegible]	Locarno	[illegible]	[illegible]	[illegible]	Oslo	[illegible]	[illegible]	[illegible]	Warsaw	[illegible]	[illegible]	[illegible]
Cologne	[illegible]	[illegible]	[illegible]	London	[illegible]	[illegible]	[illegible]	Paris	[illegible]	[illegible]	[illegible]	Washington †	[illegible]	[illegible]	[illegible]
Copenhagen	[illegible]	[illegible]	[illegible]	Los Angeles †	[illegible]	[illegible]	[illegible]	Perth	[illegible]	[illegible]	[illegible]	Wellington	[illegible]	[illegible]	[illegible]
Corfu	[illegible]	[illegible]	[illegible]	Luxembourg	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Zurich	[illegible]	[illegible]	[illegible]

C–Cloudy. Dr–Drizzle. F–Fair. Fg–Fog. H–Hail. R–Rain. S–Sunny. Sl–Sleet. Sn–Snow. T–Thunder. † Noon GMT temperatures

Bonn gives way on E German pensions

By Leslie Colitt in East Berlin

THE final terms of monetary union between East and West Germany were agreed yesterday after Bonn made concessions to appease disgruntled East German pensioners.

Nearly 6m East Germans over the age of 60 will be allowed to convert 6,000 East German Marks in cash and savings into D-Marks at the rate of one to one.

The amount was the remaining sticking point in negotiations to finalise the introduction of the D-Mark into East Germany on July 2. Only last week Bonn had offered a flat 4,000 Marks for every citizen. East Germany said this discriminated against retired people who depended on their savings.

"This compromise gives our elderly citizens security in their retirement," said Mr Günther Krause, the chief East German negotiator on monetary union.

The final agreement was hammered out in talks between officials in East Berlin and Bonn in recent days and approved by the East German cabinet yesterday.

Counterbalancing the concession to pensioners, children up to 14 years old will only be allowed to convert 2,000 Marks into D-Marks at the favourable one to one rate. East Germans between 15 and 59 will be able to exchange 4,000 Marks at this rate. Cash and savings above this amount will be converted at the rate of two to one.

At a later date East Germans are to be given the right to purchase shares in state-owned companies with whatever savings they have converted at two to one. All the money East Germans convert must be paid into a bank account, which will then be converted into D-Marks.

East Germany yesterday also changed the official exchange rate of the Mark to the D-Mark to two to one from three to one, the rate in existence since January 1.

Mr Krause said this was done to bolster the purchasing power of East Germans, who are increasingly being offered goods from stalls set up by West Germans. The black market exchange rate of the non-convertible Mark has risen this week to a rate of 3.5 Marks to DM1 from its low point last December of 18 Marks to DM1 as demand for Marks rose.

Pretoria, ANC begin talks

Continued from Page 1

The statement said the discussions were characterised by "openness and straight forwardness" on both sides.

Both sides say they are optimistic that this week's "talks about talks" will succeed, and both have shown early signs of flexibility. Their task will be to negotiate a package deal which meets a list of ANC demands – including the release of remaining political prisoners, return of exiles, lifting the four year state of emergency and repealing other security legislation.

The Government appears willing to compromise on these issues but will demand in return action from the ANC to end its rhetoric of armed struggle.

Mr Mandela made a significant gesture to whites when he delivered part of his speech in Afrikaans, which many blacks consider the language of oppression. The ANC knew whites feared change, he said. "Therefore the ANC wants once again to emphasise that the white community, including Afrikaners, has nothing to fear from the ANC."

As Mr Mandela spoke, the Afrikaner security men who had been swarming all over the estate from early morning, smiled nervously.

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday May 3 1990

INSIDE

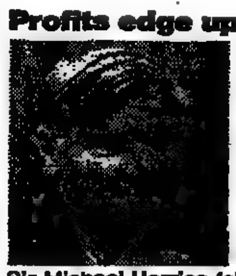
Motor industry: results and forecasts

BMW was optimistic yesterday that it would stave off any large-scale industrial action through 1990 despite one-day stoppages this week over higher pay and shorter hours. Meanwhile, its West German compatriot Mercedes-Benz, said first-quarter earnings in its truck division rose because of strong growth in key markets and a shift to more profitable heavy trucks; but DAF, the Dutch truck maker, warned of a first-half loss of more than Fl 20m ($10.59m). Pages 20-21

Downward trend in chemicals

Hoechst, the big West German chemicals concern, has suffered an 8.5 per cent fall in first-quarter group pre-tax profits to DM920m ($548m) though the group still expects to keep profits steady for the year as a whole. At the Dutch chemicals group, DSM, first-quarter net profits fell 18.5 per cent because of reduced margins in core businesses. The result followed a trend set last week by Akzo, the country's other big chemicals company. Page 21

Profits edge up at Royal Bank

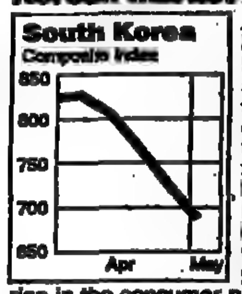


The Royal Bank of Scotland reported a small increase in interim profits yesterday – and a large fall in its exposure to highly levered companies. Pre-tax, the Edinburgh-based group earned £173.6m ($285m), up from £171m in the same period last year. Sir Michael Herries (above), the chairman, said Scotland was faring better than the rest of the UK but trading conditions were likely to remain difficult. Page 26

Oil traders in limbo

Two years ago, a US court gave a preliminary opinion that the market in which UK-produced North Sea Brent crude oil is bought, sold, and delivered – mainly in Europe – was a US futures market. Traders hardly batted an eyelid as they thought the pronouncement too absurd to be upheld. On April 18, however, it was confirmed implying that traders may be in violation of US law, under which off-exchange futures transactions are illegal. Steven Butler looks at a market which is in limbo while UK and US authorities try to sort out the confusion. Page 32

Korean market has record falls



A gradual decline on the South Korean stock market has speeded up alarmingly over the last two weeks with Seoul's composite index setting two records for one-day falls. The crisis stems from a series of economic and social concerns including widespread labour disputes and a 5 per cent rise in the consumer price index in the last four months. Back Page

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				Rises			
Daimler-Benz	842	+	19.5	Eaux	1294	+	64
Deutsche Bank	768	+	20.5	BNP	459	+	22
Karstadt	665	+	19	Peugeot	867	+	27
Linde	983	+	33	Falls			
Siemens	746	+	10.1	Promodes	4080	−	110
Falls				Galeries	527	−	13
Rosenthal	351	−	4	UIF	574	−	22

NEW YORK ($)				TOKYO (Yen)			
Rises				Rises			
American Gen.	47⅞	+	7⅛	Clarion	971	+	100
Ames Dept Store	[illegible]			Hokuriku	1180	+	120
Falls				Makita	1250	+	200
	2⅜	+	[illegible]	TDF	2110	+	230
	[illegible]			Falls			
Eastman Kodak	37⅞	+	2				
Mattel	[illegible]						
Pepsico	65⅞	+	1⅛	Kyocera	1250	−	120
Toys R Us	41⅞	+	⅞	Plus-Tech	750	−	50

LONDON (Pence)							
Rises				Tate & Lyle	276	+	4½
BowaWalker	285	+	6	Tiphook	492	+	4
Brit Aerospace	521	+	9	Wellcome	676	+	14
Brit Steel	140	+	2½	Falls			
Color Grp	255	+	7	ESC	124	−	7
Chrysalis	183	+	10	Europa Mins	55	−	10
Coloroll	120	+	9	[illegible]	685	−	60
Cons. Gold	230	+	35	[illegible]	230	−	40
Enterprise Oil	563	+	13	Storehouse	290	−	10
LASMO	389	+	8	Brit. & Gen.	290	−	7
Lucas Inds.	600	+	8	Tullow Oil	16½	−	1
Racal Telecom	327	+	12				
Shell	438	+	7				

American General up for sale

By Roderick Oram in New York

AMERICAN General, the fourth largest publicly-owned US insurer, put itself on the block yesterday saying it hoped to fetch more than $7bn.

Analysts on Wall Street thought a European or Japanese insurer might be interested in acquiring the company, given that opportunities are rare to make a purchase of this size in the US insurance market.

American General's move came as shareholders voted at the annual meeting on resolutions proposed by Torchmark, a competitor one sixth its size, and designed to put the company into play.

American General's board had fought Torchmark's initiative, advising shareholders they would benefit more from sitting tight to enjoy the rewards of past years' restructuring.

Despite claiming victory over Torchmark's directors, the board said it was putting the company up for sale because it "was vulnerable to possible acquisition at a discount price."

Torchmark, based in Birmingham, Alabama, had launched a $50 a share, $6.3bn, bid for American General in late March. It withdrew the offer two days later because it said the target's board was not prepared to consider it.

It launched instead a proxy fight to get five directors sympathetic to a sale elected to American General's board and it also proposed a resolution calling for the company's sale.

Torchmark welcomed yesterday's change of heart by the board. "We look forward to sitting down with them to discuss a merger proposal," Mr R.K. Richey, chairman, said. He declined to give details of a new offer.

Mr Harold Hook, American General's chairman for the past 12 years, said the company's full value "greatly exceeds" both its current stock price and Torchmark's $50 a share offer.

Analysts had thought Torchmark's original bid was broadly a fair price for American General. They were concerned, though, that Torchmark, with assets of only $5bn against its target's $33bn, might be strained to raise the finance for such a large bid. Torchmark and its advisers said they were confident they could.

Reflecting these uncertainties, American General's share price rose only $6¼ to $46¼ by yesterday afternoon with some 2.3m of its 121.4m shares changing hands. Torchmark added $¾ to reach $44¾.

Both companies are strong in the business of selling small life insurance policies door-to-door. American General is also the third largest consumer loans company in the US. Mr Hook said the board believed the company's full value would be realised if it were sold in its entirety. If no satisfactory offers were forthcoming, the board would consider selling parts of the company.

To give shareholders some interim reward while a sale was negotiated, the board increased the quarterly dividend to 80 cents a share from 33.5 cents.

Nobel buys UK paint business from Williams

By Ian Hamilton Fazey

WILLIAMS HOLDINGS is selling its Crown Berger paints businesses in the UK and Ireland to Sweden's Nobel Industries for an initial £205m ($336m) in cash. Up to £35m more will be payable if Crown's sales achieve their £240m budget this year.

The deal will propel Casco-Nobel, the Swedish group's paints division, close to the top of the European coatings league table with ICI of Britain and Akzo of the Netherlands – which each sell about 250m litres a year.

Crown, which employs 2,500, including 600 at its Lancashire headquarters, is second to ICI in the UK decorative paint market. Crown's 27 per cent share is split 17-10 between its own brands and own-label paints for retailers.

Mr Ove Matsson, Casco-Nobel's chief executive, said in Stockholm yesterday: "The price is high, but buying one of the true leaders of the industry is worth a premium. It is a well-assetted company with the best paint factories in the UK. We are buying a position in the marketplace."

Williams is retaining Crown's profitable North American and Portuguese decorative paint companies, as well as its Cuprinol wood preservatives and Polycell adhesives businesses.

The initial sum is £103m more than the book value of Crown's assets, and will enable Williams to reduce borrowings from £126.42m to £23.06m this year.

The sale will also reduce the company's dependence on the uncertain UK consumer market from 40 per cent of its business this year to 22 per cent. Williams' share price added 9p yesterday to 259p.

Last year Crown made operating profits of £20.9m on sales of £192.6m.

Williams bought Crown from Reed International in 1987 and added Berger, Jenson & Nicolson from Hoechst, the West German chemicals group, a year later.

This led to a substantial rationalisation of the overcrowded UK market, where Berger was struggling in third place behind ICI and Crown. Its Bristol plant was shut down almost immediately. Berger's Asia-Pacific subsidiaries were disposed of piecemeal.

Williams spent a total of £420m on building its short-lived global paints business. Mr Brian McGowan, the chief executive, said yesterday that the parts it has kept accounted for £130m of this but contributed £40m to last year's profits.

Background, page 29

CCF buys stake in UK fund manager

By Nikki Tait in London

CREDIT Commercial de France (CCF), the privatised French bank, is acquiring a 25 per cent minority stake in Framlington, the UK fund management company, for £18.75m, with the expectation of taking this to 51 per cent in a year's time.

Framlington is owned by Throgmorton Trust, a large investment trust. It is best known for its unit trust business, which accounts for about one-quarter of the £2.4bn funds under management.

At one stage, CCF had owned a 28.8 per cent stake in Framlington, acquired in the mid-1980s. It wished to sell it in 1988, however, and Throgmorton won control of Framlington after making a hostile £78m offer for the company.

Yesterday's deal continues the flow of acquisitions by continental banking groups of UK fund management businesses.

CCF says it plans to make Framlington the main focus "for further development of CCF's international fund management network." CCF itself has around £10 billion under management. It said its subsidiary holding the Framlington interest would bring in other European-based partners as minority shareholders.

CCF is paying £18.75m in cash for the initial 25 per cent holding, and will take three board seats at Framlington. Throgmorton and CCF have also entered an option agreement in respect of a further 26 per cent of the fund management business, exercisable in April 1991.

Picture: Tony Andrews

MR GRAEME Seabrook, chief executive of Kwik Save, the limited-line discount food retailer, disappointed analysts yesterday by reporting a 12 per cent rise in interim pre-tax profits.

The group turned in a result of £39.6m, when the market had been looking for around £41m-£42m, and Mr Seabrook admitted he had been hoping to report profits of over £40m.

Kwik Save's shares slid 9 per cent to close 46p lower at 476p, as analysts downgraded estimates for the year to around £85m. This would compare to £73.5m for the 12 months to August 30, 1989, and analysts pointed out that Kwik Save has yet to find a new finance director.

There are fears that the arrival in Britain of Aldi, the West German discount food store, will be significant new competition for the UK group. But Mr Seabrook dismissed Aldi's impact, showing a copy of an advertisement directed at shoppers in the Birmingham area. Aldi's first store opened there last month.

The ad read: Remember nobody (including the Germans) beats our everyday prices and top quality brands. Mr Seabrook said Kwik Save had cut prices to match the German challenge, but the effect could be offset across the wider range that Kwik Save carried.

Details, page 28. Lex, page 18

Advisers cough, and the chairman listens

By Clay Harris, Consumer Industries Editor

MR NEIL SHAW, the Tate & Lyle chairman who has not yet decided whether to bid for Berisford International, his company's rival in the UK sugar market, tried yesterday to give a few hints of his intentions. But not much got past the discreet throat-clearings of his advisers.

Tate, Mr Shaw said, would sell everything except British Sugar if it took over Berisford. Fidgets from the other end of the table prompted Mr Shaw to try to retrieve his words, even though they were hardly surprising. There was more to come.

"When we get to the Monopolies Commission," Mr Shaw said, the evidence in favour of Tate's emphasis on the broad European, rather than the narrow UK, market for sugar would be overwhelming. When, not if? Yes, said Mr Shaw. Again, murmurs from his minders obliged him to make clear that nothing was being taken for granted.

It is not easy to be a chairman, especially one as earnest and voluble as Mr Shaw, in the no man's land of a British bid period. Even when, as in Tate's careful pursuit of Berisford, there is no takeover bid actually on the table.

As Tate announced pre-tax profits of £87.5m ($143m) for the half-year to March 31, Mr Shaw was carefully shepherded through his meetings with the press. Foremost among his minders was Mr Michael Tory of SG Warburg, the merchant bank which would answer to the Takeover Panel if Tate said too much.

Tate said it continued to investigate the value of Berisford's non-sugar interests, especially the troubled US property investments. But Mr Shaw appeared to be rehearsing for a Monopolies Commission appearance. He said Tate could – and would – reduce UK sugar prices if it was allowed to buy British Sugar.

Tate results, Page 26

Johnson Matthey job cuts will lead to 'substantial' charges

By Kenneth Gooding in London

SHARES IN Johnson Matthey, the precious metals refining and marketing group, fell by 9 per cent yesterday. The drop, by 22p to 225p, came after the new management team said that further rationalisation – including the loss of "hundreds" of jobs – will lead to substantial exceptional and extraordinary charges in the 1989-90 financial year.

Johnson Matthey has been signalling that a streamlining programme was on the way since last year when Charter Consolidated, which owns 32 per cent of the company, tightened its grip. Charter is part of Mr Harry Oppenheimer's South African empire. Its tighter control led to the resignation of Mr Eugene Anderson as chief executive of Johnson Matthey; Mr Neil Clark gave up the chairmanship.

Despite the advance warning, some analysts were taken aback by the indications yesterday of the cost of the programme, which they estimated at about £10m ($16m). There was also disappointment that it would take at least two years for the full benefits to come through to profits.

Mr David Davies, the former Hill Samuel chief executive who in December moved from Charter to become Johnson Matthey's chairman, said Johnson Matthey could not give full details of the proposals until the interim results were announced on June 14.

He indicated, however, that "hundreds" of jobs would be lost over time.

He said: "Basically Johnson Matthey's business is extremely sound and is showing good growth. But over the past couple of years costs have got out of control and out of line with the growth in margins. The company has become a bit flabby and we are coming to grips with that."

Targets for rationalisation include head offices in Hatton Garden in London and Valley Forge in the US. Thirty redundancies have already been declared at Hatton Garden to bring the head-count down to just over 100 in the next six months.

The precious metals division's UK operations will also be rationalised and, in particular, there will be a "significant contraction" in the scale of operations at the Brimsdown refinery in North London. The group's activities at the materials technology division at Royston, Hertfordshire, which houses about 20 of the company's 77 business units, will also be streamlined.

Maxwell deal with Bell is halted

By Kevin Brown in Sydney

AUSTRALIAN regulatory authorities moved quickly yesterday to prevent Mr Robert Maxwell, the British newspaper publisher, from acquiring a 14.9 per cent stake in the Bell Group, a 74.5 per cent media subsidiary of Bond Corporation Holdings, Mr Alan Bond's troubled master company.

Mr Maxwell, publisher of the UK's Mirror Group Newspapers, said early yesterday that he had agreed to buy 48.59m shares in Bell for A$485,949 (US$362,650) from Mr David Aspinall, Bell's managing director.

However, completion was delayed for at least 24 hours after the National Companies and Securities Commission (NCSC) obtained an injunction in a Melbourne federal court freezing the purchase until this morning.

The NCSC said it wanted time to investigate the circumstances surrounding both the sale to Mr Maxwell and an earlier deal in which Mr Aspinall bought 16.57 per cent of Bell from the State Government Insurance Commission (SGIC) of West Australia last Friday. The commission said it was "reasonably clear" that the acquisition of Bell shares by Mr Aspinall was a breach of Australia's takeover code, which prevents owners of more than 19.9 per cent of shares in a company from acquiring more than an extra 3 per cent without making a full takeover bid.

Under the takeover code, the shares acquired by Mr Aspinall are deemed to be controlled by Bond Corporation Holdings because of his position as a director of a subsidiary company.

Mr Arthur McHugh, executive director of the NCSC, said Mr Aspinall had apparently sold the bulk of his holding to Mr Maxwell in the mistaken belief that "it somehow minimises the damage done." He said the sale "without reference to other parties was probably not the best way the commission would [wish] to see this resolved."

This is not the first time Mr Maxwell has sought to enter the Australian newspaper market – he tried unsuccessfully in 1988 to buy The Age, a Melbourne daily regarded as one of the country's best newspapers.

Bell's main asset is the highly profitable West Australian daily newspaper, which reported net profits of A$30m in 1988/89 and has a circulation of more than 250,000. Bell also controls just under 50 per cent of the Daily News in Perth, and has a string of suburban and country newspapers.

Fall in earnings from chemicals depresses Kodak

By Roderick Oram in New York

EASTMAN Kodak has reported a small decline in first-quarter profits with sharply higher earnings from photographic products more than offset by a steep fall in earnings from chemicals.

The company, which has endured several rounds of cost-cutting and restructuring in recent years and a plunge in profits last year, remained optimistic that its performance would improve during the rest of the year.

"Barring unexpected developments in the economy, we believe the recovery forecast for Kodak will come about and that this will become increasingly clear in subsequent quarters," Mr Colby Chandler, chairman, said.

Net profits for the quarter ended March were in line with Wall Street forecasts, slipping 6 per cent to $199m, or 61 cents a share, from $212m, or 65 cents, a year earlier. Sales dipped 2 per cent to $4.11bn from $4.21bn.

The latest period covered one more week than that of a year earlier because of a change in Kodak's accounting periods. Excluding that factor, profits were essentially flat, the company said.

In Kodak's imaging sector, worldwide sales declined slightly to $1.35bn despite record sales gains abroad for Kodacolor films, Ektacolor papers and cameras. Sales in the US declined 15 per cent to $470m.

Worldwide operating profits soared to $219m from $146m, although this rate of increase will moderate in subsequent quarters, Kodak said.

Chemical sales were flat abroad but declined in the US, leaving the worldwide total down 6 per cent at $883m. Operations were hampered by a temporary peak in raw material prices and a power failure which led to the temporary shutdown of facilities in Tennessee. Operating profits slumped to $130m from $210m.

Information systems' operating profits slipped to $28m from $35m on flat sales of $990m. Kodak's fourth segment, health products, reported operating profits of $121m, against $125m, on sales ahead 2 per cent at $969m.

General Re income hit by storm claims in Europe

By Martin Dickson in New York

GENERAL RE, the largest reinsurance group in the US, yesterday reported a 5 per cent increase in first-quarter net income a share, excluding realised capital gains.

Mr Ronald Ferguson, chairman, said that while domestic property/casualty underwriting results were satisfactory, overseas subsidiaries' net income was hit by the storms which battered the UK and northern Europe early in the quarter.

The combined underwriting/expense ratio for the domestic property/casualty companies was 99.0 per cent, compared with 98.9 per cent for the same quarter of last year and 93.8 for the fourth quarter of 1989.

Earnings per share, excluding capital gains, were $1.50, against $1.43.

After-tax realised capital gains were 14 cents a share, compared with 26 cents, and net income worked through at $1.64 per share, down from $1.69 last time.

Worldwide net premium volume was $531.8m, up 12.4 per cent, while domestic property/casualty written premiums rose 13.5 per cent to $478.1m.

Another US insurer, USF&G, yesterday reported net income of $51m or 55 cents a share in the first quarter, compared with $31m or 33 cents in the same period of 1989.

The increase was due primarily to realised capital gains, which more than offset reduced premium income, due to the soft underwriting cycle and increased catastrophe losses.

● Lincoln National, the US insurance holding company, reported net earnings of $26.2m or 54 cents a share in the first quarter, after a 61 cents per share loss, Reuter reports.

For the same period last year the company earned $51m or $1.13. Revenue went ahead to $1.97bn from $1.79bn.

The $25.8m or 61 cents per share loss in the quarter was net of a gain on the sale of common stock and losses on fixed-income investments. First-quarter earnings for the property/casualty segment fell to $30.7m from $48.7m.

Government seeks peace in Enimont dispute

By John Wyles in Rome

A SPECIAL shareholders' meeting of Enimont, Italy's unhappy public-private chemicals joint venture, was duly postponed yesterday to allow 30 days for the Government to try to mediate a settlement between the company's warring owners.

The assembly had not been expected to produce a quorum to deliberate on Montedison's proposal for a L10,250bn ($8.3bn) capital increase because there was no possibility of the proposal mustering the necessary 65 per cent majority, given the resolute opposition of Eni, the state energy company, which holds an equal 40 per cent stake to its private partner.

However, the unspoken threat yesterday was that under the Italian civil code the special assembly could be convened for a third time – the first convocation was last Monday – when the proposal could pass by the simple majority in the possession of Mr Raul Gardini's Montedison and his other private sector allies.

"I believe this leaves a wide field open for negotiations," said Mr Sergio Cragnotti, Enimont's managing director and a Gardini nominee, yesterday.

He added that there was a desire to avoid a further confrontation between the two main shareholders and to find a solution to the problem about the joint venture's future ownership and industrial strategy.

Mr Giulio Andreotti, the Italian Prime Minister, has taken personal charge of the Enimont portfolio and he is expected to apply himself to launching a mediation after this weekend's local elections.

Imasco up 23% in first quarter

IMASCO, the financial services, fast food, retailing and tobacco group 40 per cent controlled by BAT Industries of the UK, has made a good start to 1990, despite a slowing North American economy, writes Robert Gibbens in Montreal.

First-quarter earnings were C$66.6m (US$57m) or 50 cents a share, up 23 per cent from $54.1m or 42 cents a year earlier. Revenues were ahead by 15 per cent to $1.4bn. The biggest contributor remained tobacco products.

Struggle to keep on truckin' as market stalls

Kevin Done surveys the bumpy road ahead for DAF and its competitors in Europe

The truck industry is no place for the faint-hearted. When sales fall they drop with a sickening lurch, plunging truck makers from feast to famine.

A year ago DAF, the Dutch truck maker which took over the Leyland truck and van operations in the UK in 1987, was enjoying record sales and profits.

With superb timing it chose to go public in a Euro-equity flotation valuing the company at Fl 1.34bn ($708m), only months before the European truck market peaked.

The profit curves in the annual report sent to shareholders last month still point upwards, with net profit climbing to Fl 172m in 1989, compared with only Fl 20m five years earlier. But now the party is over.

On Tuesday, trading in DAF shares was suspended temporarily as the company was forced to rush out a statement warning that it expected to plunge into loss in the first half of 1990.

Investors had already seen the DAF share price fall in recent months to Fl 33.3 from the issue price last year of Fl 47 and a peak in the post-flotation euphoria of Fl 61.

The sudden warning of a Fl 20m to Fl 30m loss in the first half of 1990, compared with a Fl 74.5m net profit in the first half of 1989, still comes as an unwelcome shock, however. Not least because DAF had only briefed financial analysts a couple of weeks ago to expect "a lower result" in the first half.

The truck industry is renowned for facing some of the most exaggerated swings of fortune in European manufacturing. As the industry takes its latest tumble, DAF is showing the worst bruises because of its greater exposure to the UK truck market, the largest in Europe last year.

Truck demand in some European markets – notably West Germany – is still strong, but sales have declined significantly in Spain and there are signs of weakness, in new orders if not yet in registrations, in France.

In the UK, however, where DAF derived 43 per cent of its Fl 5.3bn turnover last year, the truck industry has plunged into a full-blown recession.

Demand for trucks in the UK began to fall precipitately in the final quarter of last year. Sales for the whole of 1989 were the highest of the decade at 69,234, but in the final quarter demand was 20.2 per cent lower than a year earlier.

In the face of high interest rates and the UK economic slow-down, truck sales (above 3.5 tonnes) have fallen again by 25 per cent in the first quarter of this year. Sales of heavy trucks (above 15 tonnes), where DAF is the UK market leader, were 32 per cent lower than a year earlier.

Since the second half of last year UK truck makers have been forced drastically to cut back production with short-time working, including a three-day week at some companies, and cuts in the workforce to try to bring bloated stocks into line with lower demand.

DAF is not alone with its woes in the UK, it is simply more exposed. Renault Véhicules Industriels, the commercial vehicles subsidiary of Renault, warned in March that its chronically loss-making Dunstable, Bedfordshire assembly plant would be closed down if it failed to match soon the productivity and quality levels of the group's French and Spanish operations.

ERF, the last remaining independent publicly quoted UK truck maker, is believed to have been operating close to or below break-even in the second half of its financial year to the end of March, after enjoying record profits the previous year.

Iveco Ford Truck, the UK truck market leader last year, whose Langley plant to the west of London is closed for a second week by strike action, had already been forced to cut production to a three-day week.

Truck industry problems are not confined to Europe. In the US both Navistar, formerly International Harvester, and Mack Trucks are running up heavy losses in the face of a steep downturn in demand.

According to Mr Giorgio Garuzzo, chief executive of Iveco, the commercial vehicles subsidiary of Fiat of Italy, the European truck industry will continue through the 1990s to show a volume growth rate – around 1 per cent a year – similar to that achieved in the past 20 years.

He admits, however, that "the trend is only a mathematical abstraction," which obscures the dramatic swings in the industry's fortunes.

As a capital goods sector the truck industry is subject to big fluctuations in demand. "The truck is the machine tool of the road haulage industry," says Mr Garuzzo of Iveco. "The willingness of hauliers to replace their vehicles depends more on their business forecasts and on interest rates, rather than on technical needs or consumer goods trends."

UK truck operators can react to the current economic squeeze by delaying new truck purchases, because the UK truck fleet today is younger than at any time in the last decade.

According to Iveco Ford 50.5 per cent of UK trucks are less than four years old, compared with only 38.7 per cent in 1984. The share of trucks between four and eight years old has fallen from 44.8 to 34 per cent in the same period.

The uncertainties of the truck industry have, in turn, brought a tremendous shake-out.

DAF swallowed Leyland in 1987, but its attempt to enter the industry's premier league with the further acquisition of Steyr of Austria and Spain's Enasa foundered last year as it was beaten in both cases by MAN of West Germany.

It has been left looking increasingly exposed in sixth place in the European truck industry, as the restructuring again gathers pace.

Mr Aart van der Padt, DAF chief executive, insists bravely that the group, with an output of more than 36,000 trucks (above 3.5 tonnes) last year, has the critical mass necessary for survival. The company's vulnerability, he says, is its dependence on the UK market rather than a lack of volume. But as the red ink seeps into the accounts it is clear the squeeze on the small and medium-sized players is tightening, as the market weakens.

Mercedes-Benz, the vehicle unit of Daimler-Benz, said earnings in its truck division rose in the first quarter of 1990 because of strong growth in key markets and a shift to more profitable heavy trucks, agencies report.

Worldwide production in the first three months climbed 4.5 per cent to 70,000 units from 67,000 units a year earlier, Mr Helmut Werner, Mercedes' deputy management board chairman, said at the Hanover Trade Fair. Daimler would again produce around 260,000 trucks in 1990 and expected van and truck sales to rise 3 per cent for the whole year, he said.

Mr Werner declined to reveal how profitable Daimler's truck business was, but said: "Our figures look good when compared with the rest of the industry."

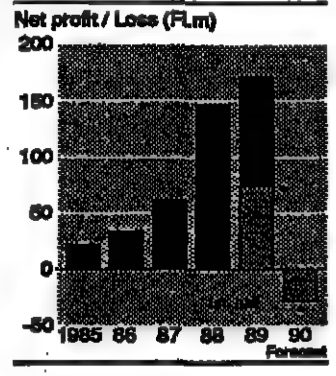
The company's West German truck sales jumped by 20 per cent in volume terms in the first quarter of 1990 on the year-ago period, with heavy truck sales rising by 40 per cent. Mr Werner warned the UK truck market could decline by 10 per cent this year.

The company has had to stop production recently in its Brazilian plant but he hoped production could start again next week.

In the US, Daimler's Freightliner unit became market leader for the first time this year, but Mr Werner said the subsidiary would have to cope with a weaker market.

DAF

Net profit / Loss (Fl.m)



Parretti sees $45m gain for Pathé

By Alan Friedman in New York

MR Giancarlo Parretti, the Italian financier whose Pathé Communications on Monday extended its $1.26bn tender offer for MGM/UA until May 10, has forecast a net profit of around $45m for the first quarter of the current year.

This compares with net income of $10.3m for the first three months of 1989. The improved first-quarter net comes after the inclusion of around $55m of gains on asset sales and foreign currency exchange gains.

Although Pathé has not yet announced its first-quarter results, Mr Parretti predicted total revenues of around $76m, compared to $91.8m last time.

At the operating level Pathé is understood to have made a loss of around $9m, against a $4.9m loss in the first quarter of 1989.

Mr Parretti stressed that Pathé's shareholder equity had risen to more than $150m by the end of the first quarter, against $110.8m last December 31. For the whole of 1989 Pathé incurred a $32.4m loss on revenues of $349.5m.

Several Wall Street analysts said they were confused by Pathé's decision to delay from May 9 until May 17 the third $50m payment of a Pathé deposit on MGM/UA into an escrow account.

Mr Florio Fiorini, Mr Parretti's Geneva-based partner who serves as chairman of Pathé, said the third $50m deposit payment had been delayed because "there is a great likelihood that we will close the MGM/UA deal on May 10 and so there would be no need to go ahead with a $50m deposit on May 9." He added it was "all a question of preparing the right papers in time."

In an SEC filing Pathé has also disclosed that the Luxembourg-based Comfinance, a private holding vehicle that indirectly controls 88 per cent of Pathé, would provide Pathé with $450m of funds to complete the MGM/UA tender.

In exchange Comfinance, which is 80 per cent controlled by Mr Parretti and his wife Maria and 20 per cent by Mr Fiorini's wife Elena, would receive 22.5m MGM/UA shares, representing more than a third of the company.

The $450m of funding is required as a condition for Time Warner to guarantee $650m of bank loans to Pathé. In exchange Pathé is to provide Time Warner with some distribution rights to the United Artists film library and some MGM rights.

The SEC filing did not specify how Comfinance would raise the $450m, but Mr Parretti and Mr Fiorini are understood to be completing the sale for between $250m and $300m of Renta, the Spanish real estate concern that is indirectly controlled by their various companies including Comfinance.

Pathé has also been seeking around $200m of bank finance in the form of a production line of credit from banks, including Manufacturers Hanover Trust and Bankers Trust.

Mitsubishi Motors in US rent deal

By Roderick Oram

MITSUBISHI MOTORS is to take a controlling stake in Value Rent-a-Car, becoming the first Japanese manufacturer to follow Detroit's lead of buying into car rental companies.

It is not, however, the first foreign car maker to enter the business. Volvo of Sweden has built up a 26 per cent stake in Hertz since the industry leader went private in 1987.

On the domestic front, General Motors is linked with Avis and National, Ford Motor with Hertz and Budget and Chrysler with Thrifty and Snappy. They see the rental business as a good source of fleet sales and a way to introduce drivers to their cars.

Mitsubishi is applying the same logic to its purchase, terms of which were not disclosed. Value, based in Deerfield Beach north of Miami, rents cars in sunbelt cities.

Most of its customers are holiday-makers who typically rent for longer periods than business travellers, thus making the rental an extended test drive of Mitsubishi cars.

The Japanese company supplies about 10 per cent of Value's fleet which fluctuates between 12,000 and 20,000 cars, depending on the season. Hertz, by contrast, has some 150,000 cars in the US.

Mitsubishi sold just over 150,000 cars in the US last year and hopes to boost sales this year to between 180,000 and 200,000.

Other Japanese companies might join Mitsubishi in the rental business. Toyota, for one, is believed to have looked at several companies.

Canadian Pacific expects big profit decline for year

By Robert Gibbens in Montreal

CANADIAN PACIFIC unveiled lower earnings for the first quarter, but some strengthening is expected over the rest of the year.

However the profit for all 1990 will still come out well below 1989's, Mr William Stinson, chairman of the Canadian conglomerate, said after the annual meeting.

March quarter earnings were C$76.2m (US$65.6m) or 24 cents a share, against C$134.1m or 42 cents a year earlier on net revenues of C$2.58bn, compared with C$2.62bn.

Mr Stinson said the decline was due to weak forest products markets, where there was a sharp fall in earnings, and lower contributions from telecommunications, manufacturing, real estate and hotels. Energy, transportation and waste services showed an improvement. High interest rates and the high Canadian dollar were also big factors.

CP Rail posted a 7 per cent increase in freight volume as export grain shipments recovered.

The real estate subsidiary, Marathon, will continue with land sales to bolster its results and is committed to pay a dividend as soon as possible.

About 80 per cent of Marathon is being spun off to CP common shareholders, and Marathon shares have been trading on an unofficial basis at around $8 per share. Mr Stinson said this was a substantial undervaluation.

IBM deal to help Valid develop EDA software

By Louise Kehoe in San Francisco

INTERNATIONAL Business Machines has agreed to acquire a minority interest in Valid Logic Systems, a developer of electronic design automation (EDA) software, in a move to boost Valid's efforts to develop software to run on IBM's new line of computer workstations.

Under the terms of the agreement, IBM could over the next five years acquire up to 49.99 per cent of Valid for a total investment of up to $103.4m.

The investment is the latest in a series of moves by IBM to encourage development of software by third parties for its workstations and other computers.

EDA software tools are used by engineers in the design of integrated circuits and printed circuit boards, and are one of the most popular applications of computer workstations.

IBM will make an initial investment of $11.2m to acquire newly-issued stock representing a 5 to 8.3 per cent stake in Valid.

IBM will also purchase warrants for about $1.2m to acquire stock at $11 per share. The agreement includes provisions for Valid to sell additional shares to IBM, beginning next year in four annual amounts.

The amount and price of each capital call will depend on Valid's sales of its EDA applications programs on IBM workstations.

Bond deal worries HK regulators

By John Elliott in Hong Kong

HONG KONG'S stock market regulators are trying to find a way of moving in on the proposed sale of the 66 per cent stake in Hong Kong-listed Bond Corporation International (BCIL) held by Mr Alan Bond's ailing Australian business empire.

The potential purchaser of part of the stake is Tomson Pacific, a local company backed by Taiwanese and mainland Chinese money and headed by Mr Stanley Ho, a Macao gambling and entertainment entrepreneur.

The regulators are concerned because Tomson, advised by Standard Chartered Asia, only proposes to buy a 34.5 per cent stake in BCIL, just below the 35 per cent threshold at which a general offer would be required under Hong Kong's voluntary takeover code. The remaining 31.5 per cent of the Bond stake is to be placed with other investors by ChinTung International, part of the Standard Chartered Group.

This could lead to a change of control in Tomson's favour if, as regulators suspect, it turns out to be close to some of the other investors. Existing minority shareholders in BCIL would also gain nothing from the deal.

However, one week after Bond executives forecast that a deal would be settled within 48 hours, negotiations continued late last night and showed no signs of reaching an early conclusion. Meanwhile, Mr Peter Lucas, head of BCIL and Mr Bond's public relations director, said that last week he wrongly estimated the funds that the Australian parent could reap from the proposed sale of its stake. He has now trimmed the figure from A$500m (US$373m) to A$400m.

Negotiations are believed to be pitched at a price of around HK$2.25 a share – yesterday's closing market price was HK$2.025 after heavy trading, up from HK$1.90 at the beginning of the week.

The Hongkong and Shanghai Bank, which is believed to be owed some A$600m by the Bond empire, is watching the negotiations closely.

Along with the Bond empire, it is in favour of a sale of the stake because this would produce cash faster than a large-scale dividend distribution or a winding up of the company, which cannot take place until the future of a 50 per cent stake in a Rome property development site is decided.

The other 50 per cent has been held for some months by Mr Bond's Australian company. BCIL would like to buy the stake so that it could then try to iron out long planning delays.

NEWS IN BRIEF

Fried. Krupp sees return to profits

FRIED. KRUPP, Germany's oldest steel firm, will return to profit this year after breaking even in 1989 and suffering a large loss in 1988, its chairman Mr Gerhard Cromme said at the Hanover trade fair, Reuter reports.

The company was tackling many of the problem areas that forced it into a DM202m ($120m) loss in 1988. Much of the company's restructuring costs were behind it and this would make a return to profit possible this year, he said.

■ **Ahold**, the Dutch retailer, said West German supermarket group Allkauf had joined a marketing pact linking a group of European food retailers. The Associated Marketing Services (AMS) was formed last year and is designed to boost members' purchasing power, Reuter reports.

Allkauf brings the number of AMS members to 10. AMS is 60 per cent owned by Ahold, the UK's Argyll Group and Groupe Casino of France.

■ **Banque Paribas** said consolidated net profit rose 19 per cent in 1989 to FFr1.38bn ($245m) from FFr1.16bn, helped by a decline in new provisions for loan risks, AP-DJ reports.

The bank unit of Compagnie Financière de Paribas noted that its 1989 performance was marked by narrower margins on loan activity following an inversion of the yield curve in France. Capital market operations was also weaker than in previous years, but merchant banking and fund management grew significantly.

■ **Skanska**, the Swedish construction group, said it agreed to acquire Oslo City, one of Norway's biggest shopping and office complexes, from Selmer-Sande for NKr1.55bn ($237m).

Skanska said the acquisition of Oslo City, a 80,000 sq m project completed in 1988, required the approval of Norwegian authorities.

■ **Georg Fischer**, the Swiss engineering company, has set the prices for shares being offered as part of a rights issue at SFr250 per registered share and SFr1,250 per bearer.

BMW expects to avoid lengthy strikes this year

By Andrew Fisher in Frankfurt

WEST GERMANY'S motor and engineering industries stand a good chance of avoiding lengthy strikes this year, despite this week's one-day stoppages over higher pay and shorter hours, Mr Franz Köhne, the personnel director of BMW, the luxury car producer, said yesterday.

"The chances that we can emerge without a strike are big – more than 50 per cent," he said. "The negotiating positions are not so great that there has to be a strike." The last big strike in the sector was in 1984, when plants were shut down for seven weeks.

IG Metall, the engineering trade union, has begun a series of warning strikes this week as part of its campaign for an 8.5 per cent pay rise and a cut in the working week from 37 to 35 hours. BMW's Munich and Dingolfing plants in Bavaria are due to be hit today.

Referring to the uncompromising tone of statements by Mr Franz Steinkühler, the head of IG Metall, Mr Köhne said: "The drama and outspoken remarks are part of the game."

Eberhard von Kuenheim: sees another excellent year

The union leader has said negotiations will fail unless employers offer a firm commitment to the 35-hour week.

Mr Köhne was speaking at the annual press conference of BMW, which – as reported on Tuesday – raised group net profits last year to DM558m ($333m), with turnover up by 8.4 per cent to DM26.5bn.

Group earnings per share rose from DM47 to DM54. Cash flow was 10 per cent higher at DM2.3bn, with group liquidity up 13 per cent to DM4.3bn.

In the first four months of 1990 group turnover increased by 4.2 per cent to DM9.2bn, with production up by 5.5 per cent to 191,750 cars.

Mr Eberhard von Kuenheim, the chief executive, declined to make any forecast for the full year, though he stated that 1990 would be "another excellent automobile year."

Elaborating on his optimism over the outcome of the pay and hours talks, Mr Köhne said German workers were unlikely to strike over shorter hours, especially now that the country faced the challenge of restructuring the East German economy.

Though opposing the 35-hour week as "the wrong way," he said it would be acceptable in 1993 or later under certain conditions.

The main one would be a reduction in the gap between Germany's shorter hours and the rest of the EC.

Good first quarter for Hafslund

By Karen Fossli in Oslo

HAFSLUND NYCOMED, the big Norwegian pharmaceuticals and energy concern, has increased first-quarter profits, before extraordinary items, to NKr283m ($43.3m) from NKr234m a year earlier.

The improved result was achieved in spite of higher depreciation costs and increased spending on research and development which the company warned would increase for the year as a whole.

Group operating revenues rose to NKr990m from NKr754m last year as did royalty income which increased by NKr9m to NKr92m.

R&D spending in the quarter rose to NKr111m from NKr70m last year. For 1990 as a whole Hafslund forecasts a rise in these costs to about NKr580 from NKr290m last year.

The imaging division, which produces the Omnipaque contrast media solution used to make X-ray pictures clearer, saw first-quarter operating profit increase to NKr264m from NKr230m last year.

CL Pharma, the Austrian unit in which Hafslund owns a 55 per cent stake, achieved an operating profit of NKr39m, or roughly the same as its R&D costs.

The metals unit, sold earlier this year, was not included in first-quarter figures.

DSM hit by tighter margins

By Our Financial Staff

DSM, the Dutch chemical group which was partially privatised in an international launch last year, yesterday reported an 18.5 per cent fall in first-quarter results, following the trend set by Akzo, the other big Dutch chemical concern, last week.

DSM's net profit dropped to Fl 242m ($128.7m) from Fl 297m a year earlier, in spite of a 5.6 per cent rise in sales from Fl 2.73bn to Fl 2.88bn and an extraordinary gain of Fl 12m. Also, DSM reported that its tax burden was reduced to Fl 69m compared to Fl 139m in 1989.

These factors helped produce results that were above analysts expectations, and DSM's share price closed yesterday at Fl 113.70. Mr Rob Sweers, an analyst with Banque Paribas, said of the first-quarter performance: "It certainly was not bad considering that the first part of last year was a record period for the chemical industry."

As with Akzo, DSM's lower profit figures were largely due to reduced margins in its core business. Pre-tax operating profits fell to 11 per cent of total sales compared to 15 per cent in the 1989 first quarter.

DSM attributed the decrease in profit margins to a substantial fall in the sales price of plastics, a trend that started in the second half of 1989. DSM added, however, that the trend was partly offset by lower feedstock costs.

DSM's earnings per share fell to Fl 6.90 from Fl 8.50 in the 1989 quarter.

In its forecast for 1990, DSM said: "At present, the course of business for most of our products is such that the group's operating results reflect the same good level seen in the second half of 1989. Under present circumstances, however, we think it is too early yet to express concrete expectations regarding the results for the current year as a whole."

Hoechst starts year on weak note

By Andrew Fisher

HOECHST, the big West German chemicals concern, yesterday announced an 8.5 per cent fall in first-quarter group pre-tax profits to DM920m ($540m), though Mr Wolfgang Hilger, the chief executive, said the aim was still to achieve a result for the whole of 1990 around last year's level.

"We started the new financial year with the handicap of lower exchange rates and prices," he commented. However, higher volume sales in western Europe showed that business conditions remained basically favourable. Turnover in the quarter rose only 0.3 per cent to DM11bn.

Turnover for all of 1989 rose 5 per cent to DM46bn, with foreign revenues rising 14 per cent, twice as fast as at home. Group net profits improved by 5.7 per cent to DM2.1bn and the company proposes a DM1 rise in its dividend to DM13 a share. Capital spending was 15 per cent higher at DM3.2bn, around half of this being in Germany.

Explaining the drop in first-quarter profits, Mr Hilger said prices were much lower than last year. The group was also affected by the drop in the dollar, the yen, and sterling. Thus the 5 per cent rise in volume sales was offset by a 7 per cent drop in turnover; new businesses added 2 per cent.

Mr Hilger said chemicals and fibres, with much of their market in the US, were especially hit by the currency falls against the D-Mark. The plastics and chemicals sectors also suffered from lower prices.

In the US, pre-tax profits of Hoechst Celanese fell by 30 per cent in the first quarter to $39m on turnover down 8 per cent at $1.3bn.

However, Mr Hilger said the exchange rate and price differences during the rest of 1990 compared with last year would not be as big as in the first quarter. Thus a profit equal to that of last year was attainable, though it would need a big effort.

Sales growth at Nestlé slackens

By William Dullforce in Zurich

NESTLE, the Swiss foods group, should achieve its usual internal sales growth and maintain or even slightly improve its profit margins in 1990, Mr Helmut Maucher, managing director, said yesterday.

In the first quarter, however, turnover reached SFr11.8bn ($7.74bn), an advance of only 2.4 per cent over the first three months of 1989. No profit figures were disclosed.

Sales grew by 4 per cent in volume last year and by 22 per cent in Swiss franc terms to SFr48bn. Net consolidated earnings at SFr2.4bn equalled 5 per cent of sales.

The "less than extraordinary" sales growth in the quarter was primarily the result of the strengthening of the franc since the start of the year and the sharp reduction in the price of coffee, Mr Reto Domeniconi, finance director, said. Exchange rate differences had a negative effect of some 3 percentage points on the sales figure.

After spending SFr8.6bn on acquisitions in 1988, mainly on Britain's Rowntree and Italy's Buitoni, and SFr1bn last year, Nestlé had no plans for further purchases after completing a $370m deal for RJR Nabisco's Curtiss Brands chocolate business earlier this year.

However, Mr Domeniconi remarked, multinational companies' stakes within the foods sector had not been finally settled and Nestlé might be "confronted" with a need to make a takeover.

Despite the board's decision on Monday to pull its proposed one-for-20 rights issue and the blocking of an issue of reserve shares by legal action from a small group of shareholders, Nestlé's financial position was strong. Group net indebtedness – borrowings less liquid assets – had been reduced by SFr566m to SFr5.2bn by the end of 1989 and amounted to only 35.5 per cent of shareholders' funds.

Mr Domeniconi stressed Nestlé's intention to continue improving the marketability of its shares and to pursue the internationalising policy started in November 1988 with the decision to open the registered shares to foreign ownership. That decision had been justified by the 30 per cent increase in the company's market capitalisation in 1989, well ahead of the 18 per cent increase in the Swiss stock market general index.

More than half the total Nestlé stock and 40 per cent of the registered shares is now held by foreigners. After listing on the London Stock Exchange, extending the Paris quotation to the registered shares and successfully launching American depository receipts on both participation certificates and registered shares in the US, Nestlé next aims at securing a listing in Tokyo.

INTERNATIONAL COMPANIES AND FINANCE

Golden opportunities in decline

Philip Gawith finds prospects gloomy for South Africa's gold mines

The 1980s was a poor period for the South African gold industry, which went from being the world's lowest cost producer to the highest. The industry's share of non-communist world production declined from 70 to 40 per cent.

If the latest March quarterly results are anything to go by, this decade promises little better. With gold produced, ore milled and yield all down on the previous period, indications are that the secular decline in profitability is growing worse.

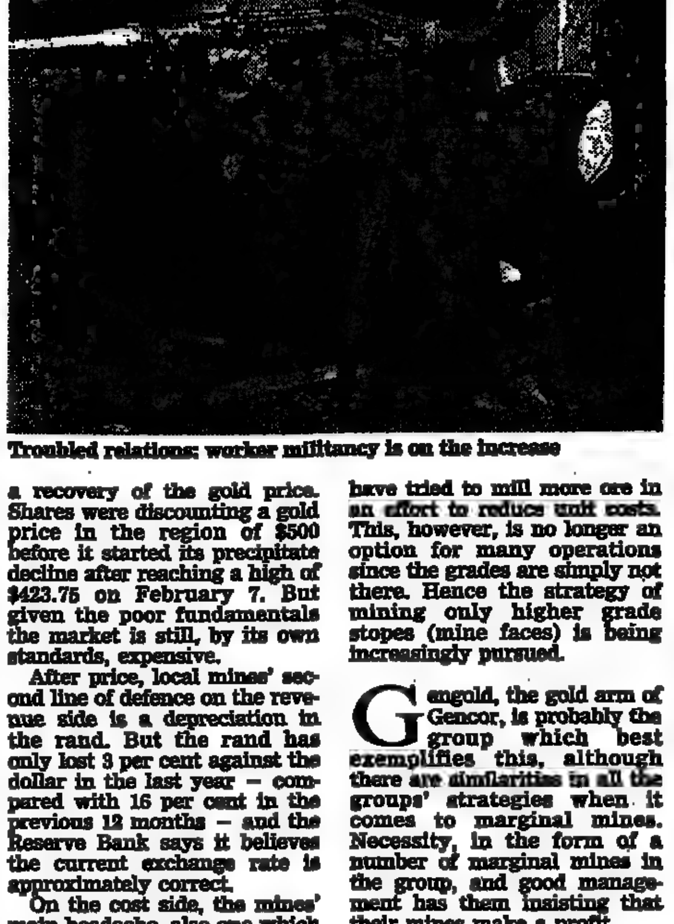
Ironically, the average rand gold price during the quarter of R1,047 ($395) an ounce was the second highest ever recorded. This helped total revenue in the period increase by 6 per cent over last year's figure to R4.72bn.

The rub lies in the fact that costs increased by 12 per cent in the same period. Indeed, according to Simpson McKie, the stockbroking firm, the industry's profit margin after capital expenditure is down to an all-time low of below 15 per cent after peaking at nearly 70 per cent in 1979.

Mr Kennedy Maxwell, president of the Chamber of Mines, recently calculated that by July this year 15 of the chamber's 31 mines would have production costs in excess of the predicted gold price for the year of R33,400 per kilogram. With the price currently closer to R32,000/kg, the picture is becoming worse.

The mediocre quarterly results have led to a re-rating of gold shares, especially those of marginal mines, on the Johannesburg Stock Exchange (JSE). The JSE all-gold index has declined by 7 per cent since the first quarterlies were announced. As Mr Rodney Yaldwyn of Simpson McKie observed: "You can't have interest rates at 20 per cent and average yield of gold shares in the region of 4 per cent."

The discrepancy is a measure of how much faith local investors have been placing in a recovery of the gold price. Shares were discounting a gold price in the region of $500 before it started its precipitate decline after reaching a high of $423.75 on February 7. But given the poor fundamentals the market is still, by its own standards, expensive.



Troubled relations: worker militancy is on the increase

After price, local mines' second line of defence on the revenue side is a depreciation in the rand. But the rand has only lost 3 per cent against the dollar in the last year – compared with 16 per cent in the previous 12 months – and the Reserve Bank says it believes the current exchange rate is approximately correct.

On the cost side, the mines' main headache, also one which they can do little about, is the country's high level of inflation, which persists at about 14 per cent per annum. Within the mining houses' control are really only three main variables: tonnage, grade and working costs. It is permutations chosen here which determine profitability.

Historically, when profits have been squeezed mines have tried to mill more ore in an effort to reduce unit costs. This, however, is no longer an option for many operations since the grades are simply not there. Hence the strategy of mining only higher grade stopes (mine faces) is being increasingly pursued.

Gengold, the gold arm of Gencor, is probably the group which best exemplifies this, although there are similarities in all the groups' strategies when it comes to marginal mines. Necessity, in the form of a number of marginal mines in the group, and good management has them insisting that their mines make a profit.

They have also avoided incurring debt in order to keep a mine functional. Rand Mines' ERPM, by contrast, is said to be up to R400m in debt and has still not been closed.

Retrenchment has been one aspect of this strategy – Gengold shed approximately 17,000 jobs in the 15 months to the end of last year. They have also pursued a strategy of mining lower volumes but higher grades. An example is Grootvlei, where production has been cut to about 65,000 tons per month, from 100 tons/month in the December 1988 quarter, and yield has improved to 3.80 grams/ton in the March quarter compared with an average of 3.11 grams/ton in 1987.

Gengold's 12 mines increased gold yield by an average 2.3 per cent in the quarter against an industry average of a 2 per cent decline.

This policy has attracted criticism in some quarters for its short-term outlook. This counts for little when the alternative is closure. As one analyst commented: "It is not a long-term strategy, but it is a strategy to stay in business."

Perhaps the most significant wildcard on the operational side is industrial relations. The freeing up of the political process seems to have fuelled worker militancy, an unhappy prospect for mines seeking to enhance productivity.

The increasing incidence of illegal industrial action by black miners during the March quarter will have been worrying for managers. The consensus is that this has more to do with politics than conditions of employment – small comfort given that it means managers cannot address the grievances.

Controlling costs will not be helped either by the upcoming annual wage negotiations. Last week the National Union of Mineworkers, which represents black miners, announced it would be seeking an average increase of 35 per cent.

With the outlook on fundamentals gloomy, analysts are predicting that 1990 could see the first mine closure. Such decisions are not easily made. Marginal mines are highly geared to the gold price and no management wants to close a mine which could make a healthy profit with a turnaround in the price.

The industry is left hoping, then, that a price windfall will rescue it from its current dilemmas.

PNG mining group up by 17%

By Kenneth Gooding, Mining Correspondent

OK TEDI Mining, the copper and gold group which is a major contributor to the economy of Papua New Guinea, yesterday reported that net profits last year rose by nearly 17 per cent, from 20.7m kina (about US$21m) to 24.2m kina.

Mr Richard Carter, managing director, said the result reflected high production in the second half of 1989 after a failure of part of the mine's ore delivery system in the first six months. Ok Tedi reported a first-half loss of 8.1m kina.

Ok Tedi is 30 per cent owned and managed by Broken Hill Proprietary of Australia. Amoco, the US group, also owns 30 per cent and the Papua New Guinea Government has 20 per cent. Three West German organisations are also substantial shareholders.

During 1989 Ok Tedi, one of the world's biggest copper-gold mines, produced 185,808 tonnes of copper, up from 52,677 tonnes the previous year, and 510,367 troy ounces of gold (381,365 ounces).

Revenue rose nearly 39 per cent from 331.5m kina to 460.4m kina. Operating profits after tax were up by more than 35 per cent, from 20.7m kina to 28m kina, but were reduced by an extraordinary loss of 3.7m kina related to the settlement of insurance claims. Profits in 1988 were reduced by nearly one quarter, mainly because of industrial disruption.

As usual, no dividend is being paid.

Ok Tedi, located atop Mt Fubilan, 6,000 ft up on the Indonesian border, started operating in 1984. Last October it won long-awaited approval from the PNG Government to discharge waste sediments and residues into the Fly River system, a decision which continues to cause controversy.

Receiver appointed at TV3

By Terry Hall in Wellington

TV3, New Zealand's privately-owned television channel, was yesterday placed in receivership following protracted delays in securing a refinancing package.

Shares in the publicly-listed channel promptly fell to 10 cents. They were issued in December at $2.50, but have been trading at 60 cents over the last six weeks. During this period the company's bankers, directors, executives and principal overseas shareholder, National Broadcasting Corporation of the US, which is owned by General Electric, have discussed a rescue package involving new equity partners.

TV3 was supposed to announce details of its new financing package on March 22. This was reported to include a capital injection of NZ$12m (US$6.7m). A reported stumbling block was the insistence of leading shareholders that new New Zealand-based executives be appointed.

Westpac Banking Corporation, TV3's banker, apparently frustrated by the delays, withdrew its banking facilities and directors then asked Westpac to appoint a receiver.

The fledgling channel has fought a bruising five-month on-air battle with the two state-owned channels, TV1 and TV2. The two established channels forced TV3 to spend millions on promotion as they battled to hold market share. Audience ratings show TV3 has 17 per cent of the market.

TV3's struggled to win advertising in a recessionary environment and was compelled to slash staff numbers. NBC, which is limited to a 15 per cent shareholding but is said to be seeking government approval to buy more, recently appointed on of its Los Angeles executives to the station.

NEWS IN BRIEF

■ NATIONAL Bank of Abu Dhabi, the largest bank in the United Arab Emirates, yesterday reported a 24 per cent rise in net profits to 107.3m dirhams ($30m) for 1989 from 86.6m dirhams the year before, AP-DJ reports from Manama.

The gain was struck after an 8 per cent rise in provisions against doubtful loans from 98.8m dirhams to 106.9m dirhams.

■ ALL NIPPON Airways (ANA) of Japan announced yesterday it increased its holding in Austrian Airlines to 9 per cent from 3.5 per cent, AP-DJ reports from Tokyo.

ANA – which bought 77,000 shares in May 1989 – took up an additional 157,000 shares for about US$65m out of a total of 400,000 new shares offered yesterday as part of the Austrian Government's privatisation.

■ KECK SENG (Malaysia), the rubber and oil palm plantation operator, yesterday announced a 5 per cent rise in pre-tax profits to M$26.52m (US$9.3m) from M$25.15m for 1989, AP-DJ reports from Kuala Lumpur.

Revenue rose 12 per cent to M$295.5m from M$262.75m.

■ MAYNE Nickless, an Australian transportation and security company, said yesterday it had acquired 70 per cent of P. van der Heijden En zonen (Veghel), a Dutch food and frozen products transportation group, AP-DJ reports from Melbourne.

INTERNATIONAL CAPITAL MARKETS

World Bank in C$150m issue as prices decline

By Deborah Hargreaves

NEW-ISSUE activity in the Eurobond market perked up yesterday as the World Bank focused attention on the Canadian dollar sector of the market. When the price of Canadian government bonds slipped early in the day, the World Bank saw an opportunity to borrow C$150m in an issue of bonds carrying a coupon of 13.25 per cent.

The World Bank took advantage of the wide appeal investors attach to its bonds by bringing a deal which was tightly priced offering a pick-up in yield of 53 basis points over the comparable five-year government bonds.

IBJ International brought the deal to market at a quiet time for Eurobonds and in the middle of a Japanese holiday.

However, placement of the bonds to institutional investors in Canada, Europe and the Middle East was reported to be fairly prompt.

The bonds were affected by volatility in the underlying Canadian fixed-income market,

INTERNATIONAL BONDS

but settled towards the close of trading at a level 20 cents inside fees. There was a suggestion that the deal had found a favourable swap rate into US dollars, but the lead managers would make no comment.

The World Bank bonds should fill pockets of demand for five-year paper in the Canadian market, which saw a previous issue of bonds for International Business Machines absorbed fairly quickly and trading on a spread of 71 basis points over the government bond yesterday.

One of the Japanese securities houses indicated that the issuance of Japanese equity warrants could begin again in July after a stagnant period. The big four houses had asked customers to delay issue of convertible and warrant bonds as well as new equities in mid-March because of the slump in the Tokyo stock market.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Sanwa Singapore Ltd.‡♦	40	(a)	100.10	1998	10bp	Sanwa Bank Int.Ltd.
Mitsubishi Oil(UK)★★♦(c)(d)	15	(b)	101½	1992	1⅞/1⅞	Mitsubishi Finance Int.
Mitsubishi Oil(UK)★★♦(d)	5	(b)	100⅝	1991	⅝/⅞	Mitsubishi Finance Int.
CANADIAN DOLLARS						
World Bank♦	150	13¼	101⅞	1995	1⅞/1⅞	IBJ Int.
D-MARKS						
Nat.Bank of Hungary♦	200	9¾	100	1995	1⅞/1⅞	DG Bank
YEN						
Banque Nationale de Paris♦	10bn	(e)	101⅞	1995	1⅞/1¼	JP Morgan Secs. Ltd.

♦Final terms. †Floating rate note. a)6month Libor + 35bp for the first three years, then deal becomes a fixed rate issue paying 10% if call is not exercised. b)Based on a formula. c)Call and put on 15/5/91, semi-annual coupon. d)Issue launched in two tranches. e)Step down coupon: year 1=18%, year 2=10%, years 3 and 4=4%, years 5 and 6=2.40%.

Drexel UK lending worth third of assets

MONEY lent by the UK arm of Drexel Burnham Lambert, the troubled investment banking firm, amounted to nearly a third of its assets, according to liquidators from accountancy firm Peat Marwick McLintock, writes Richard Waters.

The $103m had been borrowed by Drexel from a bank and a trading house as part of a metals trade, said Mr Tim Hayward and Mr Phil Wallace. One creditor, which is owed $10m, has already made a formal claim to recover the money from a UK subsidiary, DBL Limited, while the other, which is owed the rest, has said it intends to claim.

If these claims succeed, other creditors of DBL Limited will receive only 40 per cent of the money they are owed, together with their share of whatever can be recovered of the $103m from the US. If the claims fail, creditors will recover all the $71m they were owed by the company.

The money was paid last year, well before Drexel's liquidity crisis developed.

Even without the loans to the US, it would have been very difficult for the UK operations to continue when Drexel got into difficulties in the US, the liquidators said.

Creditors of the other main UK operating company, DBL Securities, are set to recover all their money. Most of the $142m of assets in that company have been realised.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on May 2

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Austria 9⅝ 93	140	99¾	100¼	-0⅛	-0⅛	9.61
B.F.C.E. 8½ 94	175	†95¼	95⅝	-0⅛	-0⅛	9.72
B.F.C.E. 9¼ 95	150	97½	98	-0⅛	-0⅛	9.77
Brit. Tel. Fin. 9⅝ 98	250	†96⅞	97⅜	-0⅛	-0⅛	9.87
Canada 9 96	1000	97⅝	98⅛	-0⅛	-0⅛	9.48
C.C.C.E. 9¼ 95	300	97⅜	98⅛	-0⅛	-0⅛	9.74
Cr.Local France 8⅞ 99	250	93	93½	-0⅛	-0⅛	9.75
Credit National 7⅞ 92	100	96¼	96⅞	+0⅛	0	9.39
Credit National 9⅞ 92	160	†99¼	99¾	-0⅛	-0⅛	9.68
Denmark 8¾ 94	150	†94½	95	+0⅛	-0⅛	9.78
E.E.C. 7 91	100	96¼	96¾	0	-0⅛	9.42
E.E.C. 10 93	140	†100⅛	101	-0⅛	-0⅛	9.68
E.I.B. 8½ 99	150	91½	92	-0⅛	-0⅛	9.88
Eurofima 10⅛ 93	100	†101⅛	101½	-0⅛	-0⅛	9.59
Elec. De France 9⅝ 99	200	†97⅞	98⅜	+0⅛	-0⅛	9.82
Euro.Credit Card Tst.9 95	750	96¼	96⅝	-0⅛	-0⅛	9.97
Finland 9 96	250	96⅜	96⅞	-0⅛	-0⅛	9.75
Finn.Exp.Cd. 8½ 92	200	98	98⅛	-0⅛	-0⅛	9.62
Finn. Exp. Cd. 9⅞ 95	200	†98	98½	-0⅛	-0⅛	9.78
Ford Motor Credit 8 91	250	†98⅝	99⅛	-0⅛	-0⅛	0.09
G.E.C.C. 10½ 91	300	100⅛	101	0	-0⅛	0.10
G.M.A.C. 8¾ 94	500	†95⅜	95⅞	-0⅛	-0⅛	9.96
G.M.A.C. 9 96	300	95⅜	95⅞	0	-0⅛	9.96
Gen.Mtrs.Corp. 9⅛ 92	200	†98⅝	99⅛	-0⅛	-0⅛	9.68
Honda 9⅝ 97	300	97⅛	97⅝	-0⅛	-0⅛	10.16
IBM Credit Corp. 8⅝ 92	400	97⅞	98⅛	-0⅛	-0⅛	9.51
IBM Credit Corp. 8⅞ 91	250	†98½	99	0	-0⅛	9.74
IBM Credit Corp. 9 92	250	98¾	99¼	-0⅛	-0⅛	9.49
IBM Credit Corp. 9½ 92	250	99⅝	100⅛	-0⅛	-0⅛	9.54
Italy 8½ 94	1500	95¼	95¾	-0⅛	-0⅛	9.76
Italy 9½ 95	1000	98⅝	99⅛	-0⅛	-0⅛	9.75
Italy 9⅝ 99	1000	98¼	98⅝	-0⅛	-0⅛	9.90
Itoh C. W/W 4⅝ 94	1000	95½	96½	+0⅛	+2⅛	5.73
Japan Dev. Bank 10 96	200	†100½	101	-0⅛	-0⅛	9.82
KFW Intl. Fin. 9 94	300	97⅛	97⅝	-0⅛	-0⅛	9.74
L.T.C.B.of Japan 8¾ 96	200	93⅜	94⅛	-0⅛	-0⅛	10.09
L.T.C.B.of Japan 9¼ 92	200	†98¼	98¾	-0⅛	-0⅛	9.90
New Zealand 9 94	850	96⅜	96⅞	-0⅛	-0⅛	9.97
Nippon Tel.&Tel. 8⅞ 98	200	93⅛	93⅝	-0⅛	-0⅛	9.86
Nippon Tel.&Tel. 9⅞ 98	250	96⅞	97⅜	-0⅛	-0⅛	9.87
Norway 8¾ 93	500	†97⅜	98⅛	-0⅛	-0⅛	9.57
Oesters Kontbk. 9⅛ 94	350	†98⅜	98⅞	-0⅛	-0⅛	9.60
Sumitomo Corp. W/W 4 93	1500	†101	101½	0	-0⅛	3.57
Sweden 8¾ 96	200	95½	96¼	-0⅛	-0⅛	9.72
[illegible]						

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 5⅝ 93	80	95¼	95¾	0	-0⅛	7.27
Cr.Local France 6⅛ 94	300	95⅛	95¾	0	+0⅛	6.66
Denmark 6⅛ 95	300	95⅛	95⅝	+0⅛	+0⅛	6.64
Denmark 7 95	400	98⅜	99	0	0	7.31
E.I.B. 4⅝ 93	30	93⅞	94⅛	0	+0⅛	7.28
Norway 5⅛ 95	50	91¼	92	0	+0⅛	7.14
Sweden 4⅝ 93	50	92⅛	93	0	+0⅛	7.33
World Bank 5⅛ 98	10	86⅛	87¼	+0⅛	0	7.35
World Bank 7 94	20	99⅛	100	0	+0⅛	7.07

Average price change... On day +0 on week +0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. 10⅛ 94 C$	150	89	89½	-0⅛	-0⅛	13.66
Abbey Nat. 11⅛ 93 £	100	92⅜	92⅞	0	-0⅛	15.02
Aegon 7⅛ 92 Fl	100	98	98⅜	0	+0⅛	8.04
Alg. Bk. Ned. 5⅛ 93 Fl	200	91½	92	0	-0⅛	9.19
Austria 7½ 94 ECU	100	89⅝	90⅛	0	+0⅛	10.72
Barclays Aus.13½ 91 A$	100	97⅞	98⅛	0	0	14.94
Bell Canada 10⅞ 04 C$	200	†86½	87¼	-0⅛	-0⅛	12.88
BP Capital 9⅞ 93 £	100	88	88⅝	-0⅛	-0⅛	15.01
British Airways 10 98 £	100	79⅛	79⅝	+0⅛	-1⅛	14.56
Brit. Telecom 9½ 93 £	150	87⅛	88⅛	-0⅛	-0⅛	14.98
Comm.Bk.Aust. 12⅞ 93A$	100	†94⅞	95⅛	0	-0⅛	14.69
Comm.Bk.Aus.13⅛ 94 NZ$	60	101⅛	102⅛	0	0	13.13
Credit Foncier 9 96 Ecu	100	91⅞	92⅛		0 +0⅛	10.80
Credit Foncier 9⅞ 99Ecu	150	91⅞	92⅛	-0⅛	0	10.65
CrLocalFran.10⅛ 95 Ecu	225	98⅛	98⅜	-0⅛	-0⅛	10.64
Deut. Bk.Aus. 13⅞ 93 A$	125	97⅞	98⅛	+0⅛	0	14.09
Deutsche Bk.Fin. 15 94 A$	100	102	102½	+0⅛	-0⅛	14.22
Elec.De France 9⅛ 99C$	150	†83⅛	83⅝	-0⅛	-0⅛	12.85
E.I.B. 7 96 LFr	100	†89	90	0	-0⅛	9.44
E.I.B. 7⅛ 99 Fl	150	87⅛	88	-0⅛	-0⅛	9.12
E.I.B. 9 99 Ecu	150	90⅛	91	+0⅛	-0⅛	10.65
E.I.B. 10 97 Ecu	500	96½	96⅞	-0⅛	-0⅛	10.71
Eurofima 7⅛ 94 Ecu	100	90⅞	91⅛	-0⅛	0	10.60
Fed.Bus.Dv.Bk.9⅞ 92 C$	75	†93⅛	93⅝	+0⅛	0	13.49
Ford Cr.Can.10⅞ 93 C$	100	†93½	94	+0⅛	0	13.54
Ford Cred.Can.10⅞ 96C$	125	89⅞	90⅛	-0⅛	-0⅛	13.43
Ford Cred.Fund.10⅞ 93£	60	88½	89	-0⅛	-0⅛	15.01
G.M.A.C.Canada 11 3/4 94C$	100	94⅝	95⅛	-0⅛	-0⅛	13.49
Heineken 7⅝ 94 FL	150	95⅜	96⅛	-0⅛	-0⅛	8.13
Hydro-Quebec 11 99 C$	400	89⅞	90	-0⅛	-0⅛	13.00
Lloyds Bank 10⅛ 98 £	150	79⅞	80⅛	+0⅛	-1⅛	14.72
[illegible]						

DEUTSCHE MARK STRAIGHTS

[illegible]						

SWISS FRANC STRAIGHTS

[illegible]						

FLOATING RATE NOTES

[illegible]					

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]						
Next Plc 5¾ 03 £	11/87	4.3	95¾	96¼	+0⅛	556.94
Omnicom Inc. 6 1/2% 04 US	7/89	28.	101¼	102½	-0¼	23.72
Ranks Hovis 4¾ 03 £	1/88	3.5	104⅜	105⅜	+0⅛	1.48
Redland 7¼ 02 £	1/87	5.4	99¾	100¾	+0⅛	-3.10
Saatchi&Saatchi 6¾ 03 £	†10/89	4.41	61	62	+1	188.53
Sanwa Bank 1¼ 02 US	†10/87	2767.	72½	74½	+0½	7.89
Sumitomo Bank 3¾ 04 US	2/89	3897.	65¼	66¼	+1¼	26.10
Texas Inst. 2¾ 02 US	9/87	82.87	74¼	75¼	0	83.25
Utd.Newspapers 8 04 £	10/89	8.77	123½	124½	+2	264.72
W.R. Grace 6¼ 02 US	9/87	42.12	82¼	83¼	+0⅛	29.11

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Australian SE to close two trading floors

By Kevin Brown in Sydney

THE AUSTRALIAN Stock Exchange (ASX) yesterday announced plans to close two of its four trading floors and move towards fully automated dealing.

The shake-up will involve closing the Adelaide and Brisbane trading floors, and more use of Seats, the exchange's screen-based trading system.

The main trading floors in Sydney and Melbourne will remain open for trading in the 100 most active stocks with a value of more than A$25,000.

The ASX said the announcement was a significant step towards the total automation of Australian securities dealing.

More than 70 per cent of ASX transactions would now take place on screen.

However, some traders accused the ASX of keeping the two trading floors open because of pressure from business interests in Melbourne, Australia's second largest city and home to many of its blue chip companies.

Mr Peter Burrows, a broking house principal, said he was "surprised and disappointed" by the ASX statement. "If there is a necessity to keep a trading floor open at all it only needs to be Sydney. Melbourne is just a complete waste of time," he said.

Mr Gavin Campbell, ASX managing director, said the dual system would allow the market to choose which dealing method it preferred.

"It is not a compromise, it is a cost-effective way of working out the best solution."

Italian bank in Spanish expansion

By Haig Simonian in Milan

ISTITUTO Bancario San Paolo di Torino, Italy's second biggest bank, has once again underlined its growing reputation as the country's most outward-looking financial institution with a plan to buy a stake of up to 40 per cent in Banca Matutes, a small private bank in Spain.

No details have been released about the cost of the deal, which will also give San Paolo a joint say in running the Spanish institution. According to Turin-based San Paolo the holding will be acquired as part of multi-tranche convertible bonds designed to raise Banca Matutes' capital.

Banca Matutes belongs to the Matutes group, whose family owners include Mr Abel Matutes, currently the European Community Commissioner for Mediterranean policy.

It has 32 branches, concentrated on the Balearic Islands. The bank had total assets of Pta37.2bn ($351m) at the end of last year.

Next month San Paolo's own branch is due to open in Madrid. However, the new stake in Banco Matutes, which requires approval from the Italian and Spanish banking authorities, should allow San Paolo to broaden its Spanish coverage more quickly, particularly if cash-rich San Paolo helps finance Banco Matutes' expansion into major business regions such as Madrid, Barcelona and Valencia.

Westpac to buy NZ Futures

ORD WESTPAC Futures, part of the Westpac Banking group of Australia, has agreed to acquire the assets, staff and futures exchange membership of NZ Futures, a New Zealand futures trading house, Reuter reports.

The acquired operation will be known as Ord Westpac Futures NZ and will be one of the few New Zealand futures and options brokers to provide 24-hour service on all major world futures and commodity markets.

The agreement is subject to the approval of the New Zealand Futures and Options Exchange.

Westpac Banking and Bank of Hawaii International have between them acquired Bank of New Zealand's 20 per cent stake in Bank of Tonga. The deal leaves Westpac and Bank of Hawaii with 30 per cent each. The Tongan Government's stake remains at 40 per cent.

Bank of New Zealand, which is restructuring its international operations, recently announced the planned disposal of its operation in Fiji and a 50 per cent holding in the Bank of Western Samoa to Australia and New Zealand Banking Group.

INTERNATIONAL CAPITAL MARKETS

Treasuries weaken on March data

By Janet Bush in New York and Andrew Freeman in London

US TREASURY bonds edged fractionally lower again yesterday morning after a larger than expected increase in March leading indicators. They then stabilised, showing little reaction to the publication of the latest US Federal Reserve Beige Book of regional economic reports.

The benchmark long bond *ended the day off ⅛ point at* 94⅜ to yield 9.03 per cent. Shorter maturities showed similar price declines.

GOVERNMENT BONDS

US leading indicators rose 0.9 per cent, which compared with forecasts of a gain of 0.6 to 0.7 per cent. The impact of this was, however, limited because figures from March are too outdated to tell much about the course of the economy. Factory goods orders rose 3.8 per cent in March, in line with expectations.

The Beige Book, an important piece of information used by the Federal Open Market Committee when setting monetary policy, described a picture of slow expansion in April. It reported that, in the manufacturing sector, new orders and shipments were up in most districts, although there was no general upward pressure on industrial prices. There was some overall improvement in manufacturing in about half of the reporting districts.

The Fed said that there was little evidence of a general "credit crunch," but where credit tightening by banks and thrifts *had been found this* mostly affected newer small businesses and the real estate industry.

The message of the Beige Book appeared to be mixed for the bond market, with some improvement in manufacturing but apparently no great concern about price pressures.

The other focus of the market was the announcement of details of next week's quarterly refunding auctions. The Treasury will sell a record total of $30.5bn, consisting of $10.50bn in three-year bonds, $10bn in 10-year notes, and $10bn in 30-year bonds.

■ THE UK government bond market traded in a narrow range yesterday, with dealers reporting thin volumes as activity was driven more by international markets than domestic factors.

With sentiment generally quiet ahead of today's local government elections, prices opened lower before rallying on the back of a firm West German market.

The benchmark 11¾ per cent gilt maturing in 2003-07 was trading around 94¾ to yield 12.48 per cent, compared with yields of 12.7 per cent on Monday.

In West Germany, traders reported a gradual improvement for most of the session after a weak opening amid speculation of a large, new auction in the Dutch bond market. Towards the close, however, bond prices eased on news of the detailed arrangements for monetary union with East Germany and ended the day about 5 pfennigs below their morning fixings.

On the futures market the June contract opened around 10 pfennigs lower than Tuesday's closing level at 81.96 and drifted to close at 81.75 in average volume of 30,000 contracts.

Dealers noted consistent support buying whenever 10-year bunds drifted over the 9 per cent yield level, but said the market remained nervous.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		10.000	4/98	90-22	-06/32	13.05	13.64	13.36
		10.500	5/99	86-13	+01/32	13.11	13.01	12.42
		9.000	10/08	76-06	+03/32	11.94	11.90	11.40
US TREASURY *		8.500	02/00	96-08	-09/32	9.06	8.97	8.65
		8.500	02/20	94-15	–	9.04	8.95	8.61
JAPAN	No 119	4.800	6/99	85.7775	+0.098	7.41	7.37	7.31
	No 2	5.700	3/07	89.1109	+0.341	7.12	7.12	7.50
GERMANY		7.750	02/00	92.8000	-0.400	8.86	8.80	8.36
FRANCE	BTAN	9.000	02/95	96.3145	+0.087	9.88	9.94	10.05
	OAT	8.500	03/00	92.5700	-0.260	9.69	9.61	9.50
CANADA *		9.750	06/00	85.7000	-0.400	11.76	11.50	11.17
NETHERLANDS		7.750	01/00	91.3300	-0.600	9.12	8.99	8.62
AUSTRALIA		12.000	7/99	91.5156	+0.292	13.68	13.76	13.56

London closing, *denotes New York closing
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

US corporate debt 'will not lead to crisis'

By Andrew Freeman

HIGH levels of corporate debt are likely to lead to rapid price inflation in the US rather than to a financial crisis. That is the conclusion of a report issued today by the Group of 30, a think-tank of international bankers.

According to the report's author, Professor Benjamin Friedman, widespread fears that over-extended corporate borrowers defaulting *en masse* might lead to a rupture in the US financial system are unfounded.

He argues that the actions of the Federal Reserve make a financial crisis unlikely. The recent increase in corporate debt in the US has exacerbated the tension between the Fed's responsibility in promoting stability and its duty to protect the soundness of the economy as a whole, but particularly the banking system.

Professor Friedman says that the Fed would act vigorously should a debt-induced crisis appear imminent, but that the prevention of such a crisis would constrain the Fed's ability to conduct an anti-inflationary monetary policy.

Given the importance of monetary policy in either tolerating or arresting prior episodes of accelerating price inflation, the more likely result of current trends in corporate borrowing is higher inflation.

The report sets out four main conclusions.

First, it suggests that in the private sector, debt-servicing problems are more likely to arise among corporate borrowers than among households because, while individual borrowing reached record levels in the 1980s, so did accumulation of individual assets.

By contrast, businesses used much of the proceeds of their borrowing merely to pay down their own or other company's equity, with the result that interest payments owed by businesses have risen to record levels. It now takes more than half US corporate earnings to meet interest payments.

Second, despite the burden of debt-servicing, default on a scale large enough to threaten the US financial system as a whole is unlikely in the absence of an economic downturn.

So long as US corporations continue to increase their earnings, defaults are likely to remain idiosyncratic and therefore not threaten the wider economy, says the report.

Third, the need to prevent a serious recession and preclude systemic debt default will increasingly constrain the Fed's conduct of monetary policy.

Professor Friedman notes that US business cycles since the Second World War show that no recession has been either deep or lasting without the acquiescence, if not the active influence, of monetary policy. The Fed's reluctance to risk a recession-induced default crisis implies an expansionary bias in monetary policy which the report says will be hard to resist.

Fourth, this in turn will severely limit the ability of monetary policy to contain or reduce price inflation. If the US economy's financial system has become too fragile to withstand any but the shortest recession, it is unlikely to be able to support a genuine attack on inflation.

Copies of the report "Implications of Increasing Corporate Indebtedness for Monetary Policy" can be obtained from the Group of 30, 33 St Mary at Hill, London (tel 071-623 6222), price £7.

Securities issue to allow home clearing

By Janet Bush

CITICORP plans a US-registered issue of credit card-backed securities this month which will offer international investors clearance and settlement in their home markets.

The lead underwriters for the issue, expected to come to market this month, will be Citicorp Investment Bank Ltd in London and Salomon Brothers in New York. The underwriting syndicate has not yet been finalised, but there will be participation from Japan, Europe and the US. A substantial amount of the issue is expected to be distributed to overseas investors.

Maturity and size are yet to be determined, but it is thought that the issue will be smaller than the $1.4bn two-tiered issue of three-year and seven-year credit card-backed securities sold by Citibank in March.

Mr Charles Wainhouse, director of strategy and policy in Citicorp's credit-card group, said that the unique part of this issue was the clearing and settlement arrangements. Co-ordination between Euroclear, Cedel and the Depository Trust Co in New York would ensure that secondary market trading in Europe and Asia would be cleared and settled locally despite this being a US-registered issue.

"In the past, we have not had the kind of secondary market activity that we would like, but the bridge between the clearing agencies should help," Mr Wainhouse said.

The issue will be senior subordinated and have a bullet maturity and half-yearly payments.

Citibank is the largest issuer of securities backed by credit cards off its own balance sheet. This issue will be the fifth in the bank's standard series.

● Taiwan's central bank said it had expanded the Taipei Call Loan Market by adding $1bn and, for the first time, providing DM500m, Reuter reports.

The bank said the addition of D-Marks was intended to diversify currency dealing and meet demand.

Agencies dip their toes into high-risk waters

Deteriorating creditworthiness and highly-publicised defaults pose particular challenges to US rating agencies attempting to gear up their analysis of sectors outside their current areas of strength.

As a result, they are attempting to build their capabilities in the high-yield junk bond market and in rating the increasing numbers of distressed and bankrupt securities.

But with their resources already stretched because of the weakening credit environment and the complexity of securities markets, the agencies are cautious about supplementing their core work of predicting defaults with analysis of securities after default or bankruptcy.

However, they know that the investment community has a good appetite for this kind of analysis, and are aware that their reputations partly rest on how well they can adapt to a changed market.

The five accredited rating agencies – Standard & Poor's, Moody's Investors Service, Duff & Phelps, Fitch Investors Service and McCarthy, Crisanti & Maffei – all rank high-yield bonds, but are generally not rated very highly in the market. Only MCM, which has a reputation for being more market-driven than its competitors, gets a good press among investors in high-yield securities.

Mr Phil Maffei, executive vice president of MCM, said: "We have had a big push in the high-yield area for three or four years. We don't feel that we need to spend 80 per cent of our time on 20 per cent of companies which are in great shape."

A rating company such as MCM has an advantage over the long-run duopoly of S&P and Moody's because it can choose its niche: the two leading agencies have an established duty to furnish the investment community with information to track closely a company such as IBM, whether its rating remains unchanged for 10 years.

Unlike the leading agencies, which provide a standard view of the long-run credit risk of a junk bond like any other security, MCM is more market-oriented. It offers investment advice with its ratings, including cash flow and liquidation analysis, an assessment of where the bond is trading and whether to buy or sell.

A common criticism of efforts to rate high-yield bonds is that the leading agencies do not offer subtle enough rating gradations and that, by looking at the long-term risk of default, they are not sensitive enough to an actively-traded market.

Janet Bush on credit-rating firms' cautious moves out of their usual sectors into analysis of junk bonds and distressed securities

The top agencies believe their rankings are sufficient for investors to perceive credit risk, that it is not their job to help price the market and that a long-term credit judgment is useful.

There is little detailed analysis of securities once their issuers have entered bankruptcy proceedings. This is understandable on the basic level that agencies are paid by issuers and so it is difficult to see how they can make money once those companies are in financial stress.

"My experience of the rating agencies is that a company files for bankruptcy and, one month later, it is ignored completely," said Mr Craig Davis, head of research at R.D. Smith, a company which specialises in trading and analysing distressed securities. "It is not that they [the agencies] are doing a bad job – it's just that they are not paid to do it." The agencies appear to be torn between sticking to their usual role of predicting defaults and responding to an increased requirement among investors for sophisticated analysis of securities that have got beyond that stage.

'My experience of the rating agencies is that a company files for bankruptcy and, one month later, it is ignored completely'

Standard & Poor's has recently launched a new service called Debt in Default in response to investor interest, but acknowledges that its analysis will be limited. Mr Mark Bachmann of S&P said: "We have an obligation to track those companies whose securities we rated when they were issued, but it is extremely difficult to assign values to securities in bankruptcy." S&P periodically provides information on the status of rated companies' bankruptcies, which the agency acknowledges is a far cry from a systematic rating service on defaulted securities.

During the last year, Fitch Investors Service has received substantial new financial backing and an influx of staff, but it has yet to make a significant competitive impact on S&P and Moody's. It recently announced a three-pronged analysis to cover junk bonds and distressed securities.

Fitch will analyse high-yield securities, determining relative value and yield, which Mr Dan Evans, president, said would be much more investor-oriented than was usual with the rating agencies. It will also analyse severely depressed securities of companies which are reorganising or restructuring. Fitch will also analyse indenture covenants – agreements between an issuer and a bondholder – to determine where an investor stands in the case of bankruptcy.

The question for the rating agencies is whether, firstly, it is their role to provide the kind of market-oriented, more short-term analysis which the investment community wants and which is already done by investment banks.

Secondly, the agencies have to determine whether the nature of the high-yield market and distressed and bankrupt securities lends itself to any kind of formal rating system.

Thirdly, as S&P and Moody's build their international business and find themselves with an increasing workload at home, they are questioning whether they have the resources to enter these new areas.

This is the second of two articles on US credit rating agencies. The first appeared yesterday.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Wed May 2 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Tue May 1 Index No.	Mon Apr 30 Index No.	Fri Apr 27 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (199)	820.03	+0.5	14.20	5.53	8.53	14.32	816.15	813.49	819.02	951.42
2 Building Materials (27)	999.70	+0.5	15.08	5.94	7.76	16.85	994.59	989.61	999.14	1188.45
3 Contracting, Construction (36)	1280.64	+0.2	18.74	6.41	6.97	31.00	1278.36	1279.21	1304.85	1704.83
4 Electricals (10)	2354.64	+0.6	12.08	5.69	10.18	39.90	2341.60	2320.14	2341.99	2807.69
5 Electronics (29)	1749.88	+0.9	10.31	4.24	12.58	18.56	1734.70	1717.35	1720.92	2183.60
6 Engineering-Aerospace (8)	448.22	+0.6	14.32	5.19	8.32	9.03	445.51	444.61	442.33	0.00
7 Engineering-General (43)	451.61	+0.4	12.99	5.54	9.60	8.17	449.88	448.31	451.99	0.00
8 Metals and Metal Forming (6)	464.50	+0.4	25.33	6.71	4.45	0.53	462.83	459.60	457.99	539.22
9 Motors (16)	336.18	+0.2	16.48	6.70	7.08	9.47	335.34	333.92	337.85	314.94
10 Other Industrial Materials (24)	1484.91	+0.3	12.19	5.37	9.32	31.01	1480.16	1485.47	1490.93	1590.09
21 CONSUMER GROUP (178)	1165.94	+0.6	10.12	4.21	12.28	10.37	1158.49	1151.43	1153.83	1201.23
22 Brewers and Distillers (21)	1373.05	-0.2	10.37	4.01	11.69	12.62	1375.27	1373.28	1369.52	1326.23
25 Food Manufacturing (20)	1015.53	+1.0	10.94	4.63	11.35	14.80	1005.46	1001.05	1009.95	1035.27
26 Food Retailing (16)	2198.30	+0.4	9.90	3.57	15.04	15.05	2190.17	2188.04	2196.38	2167.84
27 Health and Household (13)	2435.17	+0.9	7.02	2.85	16.98	17.14	2413.96	2385.03	2391.83	2330.09
29 Leisure (32)	1291.79	+1.2	10.92	4.59	11.29	11.41	1275.99	1266.85	1269.33	1606.36
31 Packaging & Paper (13)	539.06	+0.3	13.18	6.03	9.74	11.46	537.51	534.25	538.82	570.36
32 Publishing & Printing (16)	3092.70	+1.1	10.88	5.81	11.61	50.81	3060.34	3029.15	3080.13	3548.60
34 Stores (35)	705.63	+0.7	12.52	5.20	10.33	2.12	701.02	696.89	690.43	781.82
35 Textiles (12)	450.98	+0.2	14.86	7.90	8.47	3.77	449.92	447.50	454.47	532.46
40 OTHER GROUPS (105)	1072.83	+0.6	11.83	5.32	10.13	9.12	1066.74	1059.71	1060.23	1068.60
41 Agencies (17)	1504.23	+1.3	6.59	2.62	18.34	12.89	1484.78	1471.39	1472.61	1288.72
42 Chemicals (23)	1163.60	+0.8	12.28	5.67	9.52	25.08	1154.92	1149.10	1138.16	1222.66
43 Conglomerates (14)	1504.30	+0.7	10.65	6.50	11.12	10.73	1494.41	1480.08	1495.44	1565.85
44 Transport (13)	2100.85	+0.3	11.26	4.69	11.38	25.71	2094.69	2093.96	2103.71	2409.82
46 Telephone Networks (2)	1043.22	+1.0	12.17	4.91	10.68	0.00	1032.70	1019.16	1021.64	1084.79
47 Water (10)	1838.51	+1.0	18.95	7.37	5.84	0.00	1820.20	1837.84	1832.47	0.00
48 Miscellaneous (26)	1703.91	-0.6	12.26	4.97	9.31	18.48	1714.60	1705.56	1697.03	1457.54
49 INDUSTRIAL GROUP (482)	1063.73	+0.6	11.67	4.88	10.45	11.59	1057.61	1051.74	1054.64	1120.02
51 Oil & Gas (18)	2155.49	+1.3	12.57	5.60	10.50	36.63	2127.09	2111.34	2126.11	2009.30
59 500 SHARE INDEX (500)	1154.87	+0.7	11.80	4.98	10.45	13.59	1147.02	1140.35	1144.17	1195.53
61 FINANCIAL GROUP (110)	748.68	+1.2	–	6.09	–	18.31	739.56	735.74	739.09	737.28
62 Banks (9)	797.53	+2.6	20.67	6.72	6.34	24.92	777.39	769.17	766.65	726.85
65 Insurance (Life) (7)	1229.89	+0.8	–	5.97	–	36.94	1220.17	1232.29	1240.41	1046.07
66 Insurance (Composite) (7)	628.09	+0.6	–	6.58	–	19.43	624.48	622.62	629.35	586.74
67 Insurance (Brokers) (7)	1041.97	+0.6	8.24	6.25	16.02	27.41	1035.75	1034.84	1040.86	943.39
68 Merchant Banks (7)	407.46	+0.2	–	4.67	–	4.85	406.85	403.22	407.80	331.60
69 Property (48)	1061.20	-0.1	8.41	4.24	14.73	8.07	1062.15	1056.62	1070.02	1310.35
70 Other Financial (25)	294.75	+0.6	15.13	7.57	8.72	4.23	293.06	291.32	291.61	369.34
71 Investment Trusts (67)	1128.03	+0.6	–	3.39	–	9.53	1121.22	1113.92	1125.83	1119.72
91 Overseas Traders (5)	1282.38	......	10.29	7.12	11.75	42.07	1281.91	1269.70	1272.80	1361.63
99 ALL-SHARE INDEX (682)	1057.17	+0.8	–	5.11	–	14.48	1049.21	1043.16	1047.08	1083.99

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	May 1	Apr 30	Apr 27	Apr 26	Apr 25	Year ago
FT-SE 100 SHARE INDEX♦	2137.6	+19.7	2145.1	2121.7	2117.9	2103.4	2106.6	2133.6	2143.1	2105.7

FIXED INTEREST

PRICE INDICES	Wed May 2	Day's change %	Tue May 1	xd adj. today	xd adj. 1990 to date
British Government					
1 Up to 5 years	112.19	-0.17	112.38	–	4.19
2 5-15 years	113.15	-0.21	113.39	–	4.96
3 Over 15 years	116.19	-0.12	116.33	–	4.16
4 Irredeemables	129.65	-0.17	129.86	–	6.12
5 All stocks	114.82	-0.18	115.03	–	4.65
Index-Linked					
6 Up to 5 years	141.56	+0.20	141.28	–	1.49
7 Over 5 years	131.47	+0.23	131.17	–	1.38
8 All stocks	132.12	+0.22	131.83	–	1.38
9 Debentures & Loans	93.36	-1.19	94.49	–	3.30
10 Preference	73.83	-0.76	74.39	–	2.07

AVERAGE GROSS REDEMPTION YIELDS		Wed May 2	Tue May 1	Year ago (approx.)
British Government				
1 Low Coupons	5 years	12.36	12.15	9.74
2	15 years	11.91	11.85	9.22
3	25 years	11.75	11.74	9.03
4 Medium Coupons	5 years	13.58	13.47	10.70
5	15 years	12.38	12.36	9.67
6	25 years	11.90	11.90	9.22
7 High Coupons	5 years	13.67	13.58	10.82
8	15 years	12.69	12.68	9.89
9	25 years	12.19	12.20	9.41
10 Irredeemables		11.77	11.75	9.04
Index-Linked				
11 Inflation rate 5%	Up to 5yrs	4.84	4.91	3.57
12 Inflation rate 5%	Over 5 yrs	4.27	4.29	3.60
13 Inflation rate 10%	Up to 5yrs	3.83	3.90	2.64
14 Inflation rate 10%	Over 5 yrs	4.10	4.11	3.43
15 Debs & Loans	5 years	15.04	14.31	12.32
16	15 years	13.89	14.02	11.48
17	25 years	13.87	13.60	11.09
18 Preference		12.58	12.46	10.21

♦Opening index 2121.7; 9 am 2133.1; 10 am 2132.3; 11 am 2137.0; Noon 2139.6; 1 pm 2141.6; 2 pm 2145.1; 3 pm 2143.4; 4 pm 2139.3; 4.10 pm 2138.2. (a) 2.00pm (b) 8.30am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	13	76	10
Corporations, Dominion and Foreign Bonds	3	9	12
Industrials	387	298	877
Financial and Properties	166	118	424
Oils	37	14	38
Plantations	0	3	7
Mines	33	29	97
Others	55	63	136
Totals	714	610	1,621

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

● First Dealings April 17
● Last Dealings May 4
● Last Declarations July 19
● For settlement July 30

For rate indications see end of London Share Service

Calls in Atlantic Res., Beristford Int., Parkfield, Gaelic Res., Hanson warrants, Kelt Energy, Priest Marians, Tusker Res. and Sempernova. Put and call in Saatchi & Saatchi and Sommer Int.

LONDON TRADED OPTIONS

TURNOVER in the London traded options yesterday returned to more routine lower levels. It fell to below 30,000 contracts, well short of activity earlier in the week when the daily average was around 40,000 contracts. BTR, Rolls-Royce and British Gas took the honours yesterday as the most active trades.

Total turnover was 29,243 contracts, of which 18,858 were calls and 10,385 puts. The FT-SE index options amounted to 9,489 contracts, 4,882 calls and 4,607 puts. Some traders said the early worries that the FT-SE index might soon dip below 2,100, resulting in selling of calls to buy puts.

BTR was the day's busiest option with 2,482 contracts traded, of which 2,205 were calls and 287 puts. Most of the buying was done by James Capel, which bought August 420 calls from Barclays de Zoete Wedd. There was also some trade in the August 390 calls between the two parties. BZW later bought 1m BTR shares in the equity market.

The second busiest option was Rolls-Royce, in which 1,403 contracts were traded, 1,213 being calls and 190 puts. Kleinwort Benson was reported as an active buyer, particularly of the June 220 calls at 7.5, though there was a big seller in the market.

British Gas traded 1,153 contracts, including 848 calls. Other big trades were recorded in British Telecom and United Biscuits.

In futures, big buyers of the FT-SE futures contract were noted early in the day. Dealers also talked of a certain amount of bear closing. The afternoon was dull, with traders simply watching the US futures market. Futures closed at a premium of 18.

[illegible]

EURO FT-SE INDEX (*2138)

[illegible]

FT-SE INDEX (*2138)

[illegible]

May 2 Total Contracts 29,243
Calls 18,858 Puts 10,385
FT-SE Index Calls N/A Puts N/A
Euro FT-SE Calls N/A Puts N/A
*Underlying security price. † Long dated expiry months.

UK COMPANY NEWS

Trading conditions likely to remain difficult but group 'undaunted'

Royal Bank of Scotland at £174m

By David Lascelles, Banking Editor

THE ROYAL BANK of Scotland managed to overcome the worsening UK economic climate to report a small increase in interim profits yesterday – and a large fall in its exposure to highly levered companies.

Pre-tax, the Edinburgh-based group earned £173.6m, up from £171m in the same period last year. Sir Michael Herries, the chairman, said that Scotland was faring better than the rest of the UK but trading conditions were likely to remain difficult.

He added: "Nevertheless, provided there is no further deterioration and the trends we have seen recently continue, we remain undaunted by the prospects for the second half of the financial year."

The profit breakdown showed that the company and its subsidiaries suffered a fall in profits, from £152.8m to £141.4m.

But the final result was achieved with a £21.4m (£18.2m) contribution from associated companies and an exceptional £10.8m recovery of Third World loan provisions.

Earnings per share declined from 14.9p to 13.9p, but the board is proposing a 16.7 per cent increase in dividend to 2.8p per share.

The charge for bad and doubtful debts was raised sharply from £36.2m to £57.8m, reflecting the deterioration in the loan book.

This included an unquantified charge for the group's exposure to the highly leveraged finance market where it has been perceived as a leading player.

Earlier, the group had said this exposure amounted to over £700m. But Mr Kenneth Thompson, the group finance director, said this had been "ill advised" because it was based on a wide definition of highly leveraged finance.

The Royal has now adopted the new official US regulatory definition which yields a figure of £295m.

This is distributed among 115 borrowers across a wide spectrum, with each loan relatively small, Mr Thompson said. Few borrowers showed signs of trading difficulty, he said.

Mr Charles Winter, group chief executive, said the new figure "confirms our gut feeling that our exposure is not significantly different to our peers in the UK."

The US definition is based on a threshold of $20m. If this threshold was lowered to £1m, the Royal's exposure would be about £500m.

The bank has actively traded its Third World debt portfolio with the result that it has been reduced from $404m to $71m, most of which had been provided for.

This enabled £10.8m of provisions to be taken back into the profit and loss account.

Of the group's main divisions, the Royal Bank of Scotland itself earned £137.9m (£143.7m). Charterhouse, the merchant bank, made £21.1m, down from £25.9m because of the softening of the corporate finance market.

Citizens Financial, the group's US bank, managed to resist the severe downturn in the New England real estate market to increase profits to £11.8m (£8.1m).

Mr Winter said the Royal is still considering whether to go ahead with its proposed purchase of BankWorcester in Massachusetts; this would depend on the level of bad debt provisions which the bank had to make, but at the moment "it is still on track".

The RoySot Finance group earned £8.4m (£7.9m), and Direct Line Insurance £3.5m (£3.1m). Capital House earned £0.8m (£0.6m). There was an extraordinary post-tax gain of £35.8m from the sale of the group's share in the Yorkshire Bank.

The cost to income ratio deteriorated from 63.4 per cent to 65.4 per cent. Mr Thompson said this was because of the long term investments which the bank was making, mainly in developing its branch presence in England.

Total assets rose by 16 per cent to £29.6bn. The group's capital ratios also improved. The total risk asset ratio rose to 12.9 per cent from 11.4 per cent, with Tier 1 rising to 7.3 per cent from 6.5 per cent.

See Lex

Saatchi opts to sell Hay Group to managers

By William Dawkins in Paris

SAATCHI & SAATCHI, the troubled British advertising agency, has rebuffed an acquisition approach for its Hay Group consulting division by Bernard Krief Consultants, the Paris-based head hunting and public relations group, in favour of a management buy-out.

The buy-out, in which the group's 130 partners are led by Mr Lucien Girand, head of its Paris office, is understood to be agreed in principle, ready for completion within the next month.

Krief yesterday claimed that Saatchi was preparing to let Hay's managers buy the operation for between $90m and $95m (£58m), well below the $120m which the French group says it has offered.

"We are puzzled why Saatchi was not interested in our offer and that they are accepting one much less than we were offering," said Mr Joseph Harris, a spokesman for Krief.

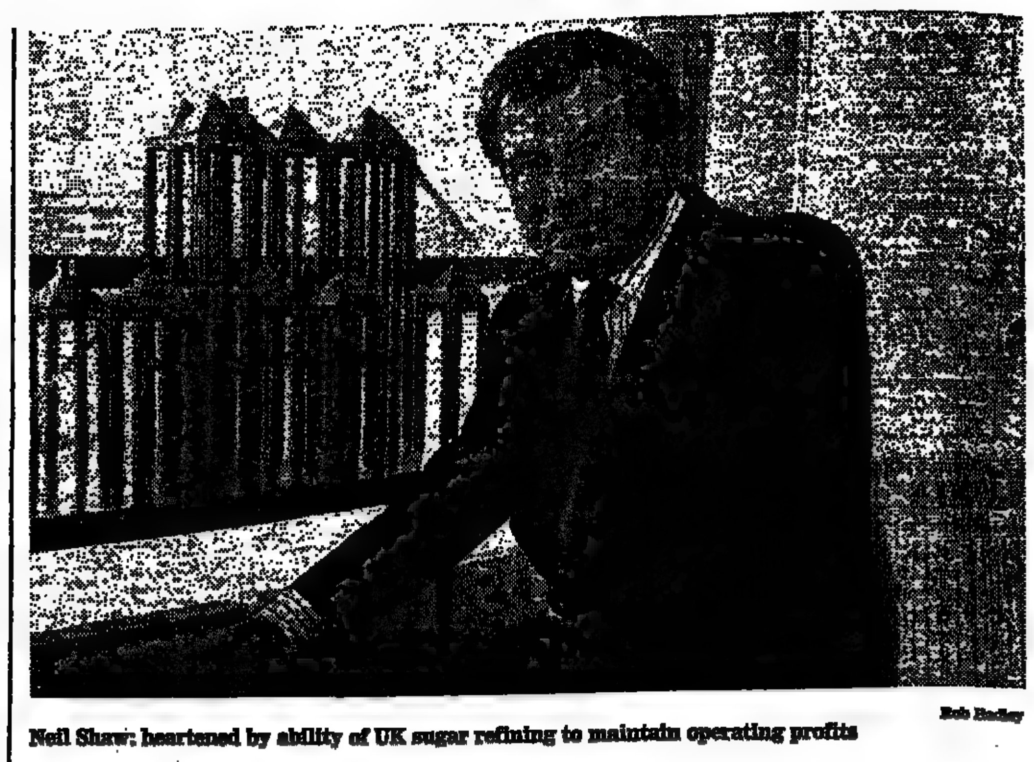
Saatchi said: "We have never had a full, firm and detailed offer from Krief. Negotiations with Hay Group's management are well advanced."

Hay, which employs 2,600 consultants, is the largest of the Saatchi consultancies up for sale and many times the size of Krief, which has a staff of between 150 and 160, operating in Paris, Washington, Brussels and Moscow.

It is expected that the management buy-out will be completed by early June. The only indication available about the price is that Saatchi has said that the sale of all six consultancies should raise between £80 and £100m this year.

It is possible that Saatchi will retain an equity stake in Hay.

Hay was unavailable for comment yesterday evening.



Neil Shaw: heartened by ability of UK sugar refining to maintain operating profits

Rob Hadley

US corn syrup and starches side helps Tate rise 25%

By Clay Harris, Consumer Industries Editor

A STRONG improvement from US corn syrup and starches and the weakness of sterling helped Tate & Lyle, the world's leading sweeteners group, to increase pre-tax profits by 25 per cent to £87.5m in the 26 weeks to March 31.

Tate said it expected sucralose, its no-calorie sweetener, to receive regulatory approval by the end of 1990. It also expects its pursuit of Berisford International, the British Sugar parent for which it has not yet made an official bid, to be referred to the Monopolies and Mergers Commission.

The interim result was in line with market expectations, and Tate's shares added 4½p to close at 276p.

The advance from £70.2m in the 1988-89 first half came on turnover ahead by 11 per cent to £1.68bn (£1.52bn). With fully diluted earnings per share up 30 per cent to 11.7p (9p), the interim dividend rises by 14 per cent to 3.3p (2.9p).

Tate was helped by three factors in particular:

● The turnround at Staley, the US maize processor which made $30m (£18.5m) in the first quarter alone, against a small loss in the same period of the previous year.

● A £9.3m boost to profits from acquisitions, especially a full six-month contribution from Amstar, the US cane sugar refiner which was part of Tate for only three months of the comparable period.

● A £6.6m benefit from the slide in sterling. Of this, £4m came from the US and Canadian earning and about £2m from the strengthening of the Belgian franc.

Mr Neil Shaw, chairman, was also heartened by the ability of UK sugar refining to maintain operating profits at £19m despite a £4.8m decline in backdated support payments from the European Community.

Staley's dramatic recovery enabled cereal sweeteners and starches to account for the largest single slice of profits at £59.2m (£37m). Within this sector, the European contribution slipped to £17.7m (£18.6m).

Cane and beet sugar made profits of £51m (£41.5m), and sugar trading and by-products contributed £16.8m (£11.3m) helped by a £2.3m profit on a ship disposal. The loss from other businesses and activities doubled to £8m. Part of this reflected the cost of refurbishing Tate's Thameside headquarters at Sugar Quay, near the Tower of London.

Businesses for sale, all of which have now left the group, accounted for reduced profits of £5m (£12.3m).

● COMMENT

Considering all the special factors, and the fact that sugar and corn syrup consumption is unlikely ever to grow faster than population in Europe and North America, it is unsurprising that Tate is blowing the sucralose horn louder than usual, and that it has chosen this moment to focus on the huge potential of value-added starch products. Expansion in the consolidating Mexican sugar market is also worth noting. But limited upside in the nutritive sweetener core also means a limited risk in recession. Tate not only expects a monopolies referral of its Berisford ambitions; it wants one. This would give another three-month respite, allowing gearing to fall below 100 per cent before the question of bid financing to be faced. Tate, in any case, will not pay over the odds. Assuming full-year profits of £220m, the shares are fairly valued on a prospective fully diluted p/e of 9.2.

Renown moves closer to control of Aquascutum

By David Owen

RENOWN INCORPORATED, Japan's biggest clothing company, yesterday moved closer to securing unequivocal control of Aquascutum Group, when Waterfall, which represents investors owning 27.2 per cent of the UK classic clothing company's 'A' shares, agreed to accept its 200p a share offer.

Renown last month made a recommended offer of 550p per ordinary share and 200p per restricted voting 'A' share for Aquascutum, dramatically entering the fray at a time when the group was under siege from the dissident shareholder consortium. The offer valued Aquascutum at £73.8m.

Waterfall's decision leaves Renown holding (or having agreed to purchase) 81.5 per cent (or 2.85m) of the ordinary shares and 64 per cent (or 17.47m) 'A' shares. This comprises 66 per cent of Aquascutum's total equity share capital.

Mr Brian Myerson, Waterfall chairman, said: "We have achieved one of our primary objectives which was to maximise the value of the 'A' shares. In our opinion, the whole exercise has re-emphasised the iniquitous nature of two-tier voting structures."

It is believed that Waterfall – whose investors include Symphony Capital Corporation, Oceana Development Investment Trust, Mr Gordon Getty and clients of Global Asset Management – purchased its shares at an average of a fraction over 100p per unit. This would appear to leave it with a profit of approximately £7m from its dealings with Aquascutum.

Mr Myerson added: "We are looking for investments in situations where we can apply our expertise to improving businesses. I don't think we would restrict ourselves to companies with dual-voting structures."

MBS cuts loss to £5m but warns on outlook

MBS, micro-computers, mini-computers, maintenance and software company, substantially reduced its net loss from £20.97m to £4.93m in 1989. Before exceptional charges, MBS actually made a profit on continuing activities of £1.2m, against a £579,000 profit last time. On discontinued activities the loss was cut from £6.16m to £3.84m.

However, MBS said yesterday that following the decision to dispose of the substantial proportion of its business, considerable difficulties were experienced in building the continuing businesses in the second half of 1989. The effects of those difficulties were being felt in the first half of 1990.

The group added that substantial sums were owed by Technology Holdings and provision had been made against these amounts. Until the uncertainty was cleared up, the board's intention of proposing a capital reorganisation and the question of any dividend payment was in abeyance.

After exceptional charges of £1.25m (£5.94m), interest payable of £926,000 (£2.57m), tax credits of £58,000 (£195,000) and an extraordinary debit of £167,000 (£7.07m) there was a loss per share of 4.7p (14.8p).

Polysource plans £105m placing

Polysource Holdings, the Third Market-traded company, yesterday announced a £105m placing of 1.5m shares.

It also said a rights issue would be in view if shareholders approved an acquisition being negotiated with another injection moulding company with sales of over £1m. Its own sales had fallen back since March.

Usher Walker slows in second half

Growth slowed in the second half at Usher Walker and the manufacturer of printers' inks and rollers ended 1989 little changed. The pre-tax outcome for the year rose from £1.25m to £1.28m after a 36 per cent midway advance from £596,000 to £836,000.

Mr Peter Walker, chairman, had said at the half-way stage that the slowdown in the newspaper industry was beginning to be felt. Yesterday the company said that although first quarter sales were up on the corresponding period, the outlook was uncertain, due to the continuing squeeze on consumer spending.

Turnover in 1989 rose 19 per cent to £17.04m (£14.27m). An increased final dividend of 7.5p (7p) raises the total for the year 1p to 11p. Earnings per share fell to 34.74p (35.67p).

Europa Minerals tops £3m in first full year

In its first full year as a listed company, Europa Minerals, a mining finance house, achieved pre-tax profits of £3.06m for the 12 months ended January 31 1990.

For illustrative purposes only the comparison is shown as a loss of £2.27m.

Earnings worked through at 5.3p (loss 6.4p) and there is a dividend of 1p.

The results of the coal operations, which included Preston Coal Company of New South Wales, Australia, for the seven months since acquisition had been satisfactory.

The oil and gas interests had shown good performance and opportunities had been taken to realise investment profits and redeploy funds into core mining activities.

During the year the group acquired a near 42 per cent interest in Burmine, an Australian gold mining company.

Barbican improves to £197,000 midway

Barbican Holdings, the Third Market industrial holding company into which Mr Ron Popely, the chairman, reversed his companies last year, reported pre-tax profits of £197,000 for the six months to end-December 1989.

That compared with £158,000 last time and was achieved on turnover of £1.79m (£883,000).

Net interest payable rose from £225,000 to £310,000.

Tax took £77,000 (nil) leaving earnings per share at 0.01p (0.015p).

Shiloh falls to £1.1m in 'difficult' market

Shiloh, textile spinner and manufacturer of medical disposables and protective clothing, reported a decline in pre-tax profits from £1.24m to £1.1m in the year to March 31. Turnover was £16.28m compared with £15.39m.

The board said that trading conditions remained difficult but the group was in a sound financial position. Additional investment of £700,000 in health care activity should benefit the company in the current year. There are further plans to expand these activities through acquisition and organic growth.

Earnings per share fell from 14.33p to 12.62p. The dividend total is increased from 2.375p to 2.625p with a proposed final of 1.75p (1.5p).

Multitrust in loss and no interim

Adverse market conditions pushed Multitrust into a loss of £14,430 for the half year ended March 31 1990, and the directors are unable to pay the forecast interim dividend of 0.5p.

The loss compared with a profit of £9,833, and equalled 0.41p (earnings 0.25p).

After a dealing loss of £15,338 (profit £14,158) revenue was almost held at £27,477 (£28,954). But that was insufficient to counter increased management expenses of £41,807 (£18,121).

COMPUTER NEWS

FINANCIAL TIMES Thursday May 3 1990 ★

New Computer Horizons – Who Cares Wins

By 1990 there will be one computer terminal for every two office staff. This was said in 1982 by Chuck Peddle, founder of Commodore and acknowledged by many as the founder father of the PC.

He also forecast more than 50% of workstation sales would be sold through Independent Sales Organisations (ISO). Manufacturers would concentrate on selling to large corporates by offering networks for filing, diary management and mailing. ISO's would develop powerful customer support organisations.

In 1982 personal computers were micros. There was no IBM PC. No standard. No sign either of IBM using third party channels to sell anything.

However, the 1980's proved more than dramatic for the Computer Industry. At the start of the decade the micro chip was news, 16 kilobytes was large and disk capacities were also measured in kb's.

Today we see megapel screens and disk capacities measured in gigabytes. Peformance enhancements have been achieved with price stability. This coupled with massive volume growth has enabled manufacturers and ISO's alike to keep up their revenue streams and achieve substantial sales.

In fact many larger ISO's have simply become a low cost sales force for manufacturers. Taking all of the cost and little profit to gain market share, they face a new dilemma. Now the predicted one for two has become reality in the USA, is this the measure at which saturation is defined?

Chuck Peddle was amazingly accurate in his predictions. He did, however, underestimate the amount of business that ISO's would actually do. In the UK more than 90% of IBM Personal Systems were sold by dealers in 1989.

This was due to dealers getting into the *IBM* corporate market place prepared to sell at far less than the manufacturer. Many of the larger dealers deliberately avoided the problems of business support and concentrated on volume sales.

Having sacrificed profit in the first decade of the new computer industry, many are now facing a sea-change.

Romtec (the Industry's market analysis guru) said in its April 1990 review, "It's becoming increasingly clear that continued growth in computer markets in the 1990's will depend on value-added resellers".

The future belongs to a grown up industry. Micros have become more than personal computers. They are capable of exceeding in size the mid range systems of the 80's. They are affordable by moderate size businesses. Price performance enables this large business sector to justify and utilise fully integrated systems.

There will be still the need to "shift boxes" into large accounts as they continue to change over from unintelligent workstations to Personal Systems, but even in these areas technical support is becoming more relevant than price.

As PCs have gained virtually the power and speed of mainframes, so their potential has broken through the barriers of transaction processing and office systems. The speed of data retrieval received another major boost in March with IBM's announcement of super fast and super sized storage devices for PS/2. The power of the 386 and 486 with these disks, with multimedia connectivity, with compression of video data – DVI – opens a whole new area of computing.

Just when Chuck Peddle was foretelling the future, chartered accountant Mike Roberts was making a move. For several years he had been Financial Director of Ofrex Group Plc, working with George Drexler the entrepreneur founder who made millions from the one-per-desk stapler concept.

Mike Roberts proceeded to build a solid business, based on commitment to quality and excellence and this has paid dividends in that the business has doubled its profits in every year of its existence.

In 1990 MICHAEL is trading at in excess of a £11m per annum with a staff level of 91. The acquisition in 1989 of the micro and mid range software business of Moore Computing elevated the company into the top ten of the 400 IBM PC dealers and enhanced the company's ability to provide computer solutions through its well established IBM Mid Range operation.

Identifiying with the need to become 'centres of competence' the primary objective of MICHAEL was to provide real business solutions through qualified advice, computer consultancy and technical support.

Each market sector needs different skills. MICHAEL responded positively with a divisionalised structure, viz:

- Corporate division where the coverted IBM System Centre status held since 1987 significantly contributes to increased sales of PS/2 computers to large multi-national and UK corporate companies.
- Public Sector division recognised as IBM's leading supplier of PS/2 and networks to schools, universities and local authorities.
- Industrial and Commercial Systems division providing application oriented solutions with increasing emphasis on UNIX based systems.
- IBM Mid Range division for niche market application software plus tailored programming for System/36 and AS/400 computers.
- Multimedia division newly created to explore the horizon and maximise the potential from converging technologies.
- Service Division – having dedicated training staff which have built up an enviable reputation for application and network training at two locations, plus an extensive network of hardware engineers who provide support maintenance.

Futher key elements of the MICHAEL route to success lies in providing career opportunities for staff, establishing professional rapport with clients from corporates to developing companies and building business partnerships with leading suppliers.

Two employees with MICHAEL from the beginning, Nichola Evans, now Head of Public Sector division and Mark Reader, responsible for Industrial and Commercial Systems activity, have been rewarded with early Board appointments. Management structure has been further strengthened by the recent appointment of Barry Jackson as Deputy Chief Executive. His vast experience in the computer services industry will be utilised in his role of running the Corporate and Mid Range divisions as well as helping to gear the business for the 90's.

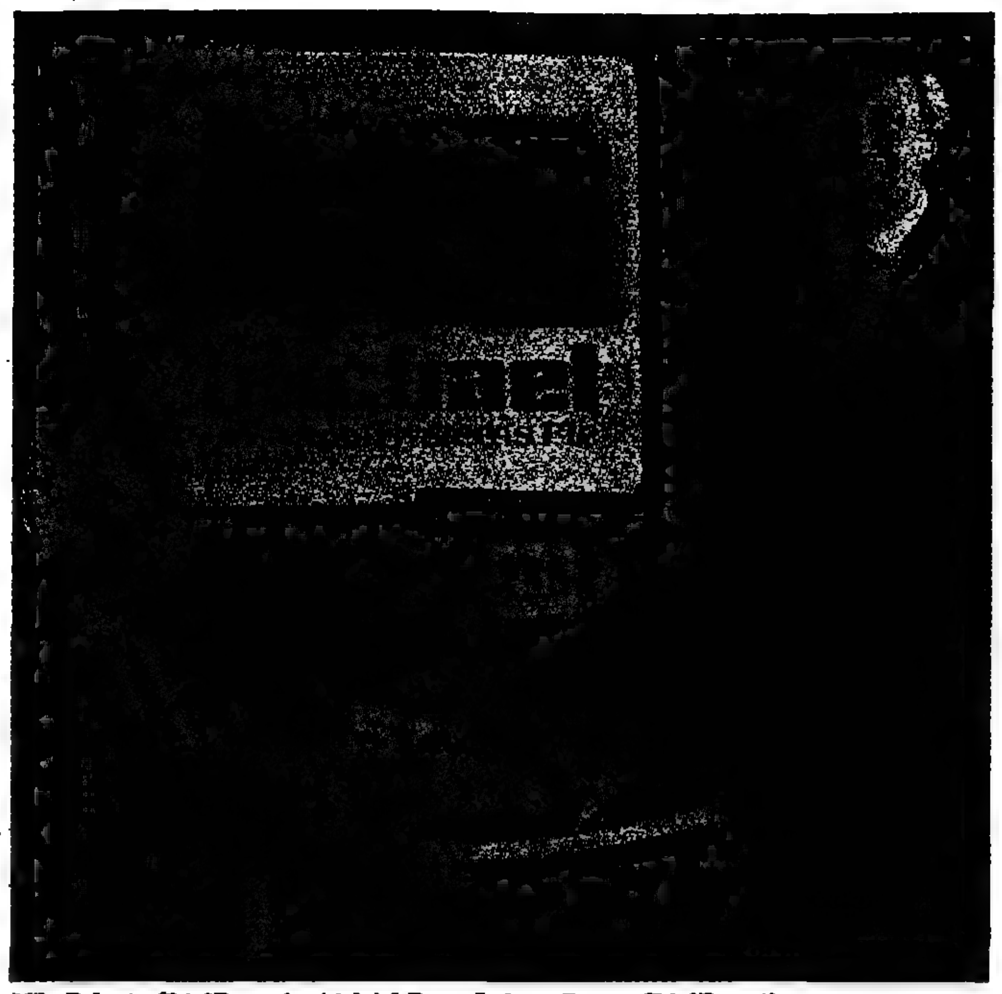
In addition to its many IBM accreditations, IBM has recognised the MICHAEL commitment to excellence through quality. For the last three years, MICHAEL has been presented with the highly valued IBM Quality Dealer Award. This year MICHAEL at its Burgess Hill HQ was also very proud to receive the prestigious IBM Dealer of the Year Award for the South of England.

1992 will bring further opportunities for growth outside the United Kingdom.

Plans are in hand for the company to establish itself in continental Europe and they should reach fruition by the end of this year and once in place will provide MICHAEL with a European market profile.

To augment two company's long track record of developing software for IBM's mid range System 36, 38 and AS/400, MICHAEL has set up a separate organisation which is going through the final phases of authorisation to become an IBM agency, which will allow MICHAEL to add the AS/400 to ist portfolio.

This will make MICHAEL Business Systems Plc almost unique in its capability to provide the complete range of IBM products from the PS/2, 6150, RS/6000 to the AS/400 with a full range of application software products, training, maintenance and on-going support. MICHAEL is quite simply a caring, complete computer services operation. Having carefully invested in resources, skills and competence in the 1980's MICHAEL is already prepared for planned take off in 1990.



Mike Roberts, Chief Executive (right) & Barry Jackson, Deputy Chief Executive.

Major UK Bank installs LLAMAS Package

Kate Leadbetter, Manager Property Finance. Derek Medd, Head of Management Services and Mark Passingham, Project Manager Westpac with Barry Jackson Deputy Chief Executive, MICHAEL celebrating the completion of the LLAMAS Project.

Westpac General Finance Ltd, a wholly owned subsidiary of the Westpac Banking Corporation of Australia recently purchased and are installing MICHAEL's Loans, Leasing & Mortgage Accounting Package (LLAMAS).

The system, which has been extensively enhanced and modified to meet Westpac's requirements, will be used by their property and consumer finance division and will handle all of their current business. The finished system will be ideally suited for future development keeping Westpac abreast with the ever changing finance environment, and already planned are the introduction of new agreement types and additional reporting functions.

Of course, LLAMAS interfaces fully with MICHAEL's Nominal Ledger package which is designed to provide quick, accurate answers to questions concerning financial status as well as efficient control over all transactions.

The package provides full processing of Westpac's personal loans, leasing agreements, and mortgages as well as providing improved management information.

The packages have been installed on the System/36 at Westpac's Maidenhead office and will be in use at Westpac's branch offices through England via Remote Controller and PC networks.

News in Brief

- WOOLWICH BUILDING SOCIETY – MICHAEL Business Systems gain foothold in the Woolwich. First deliveries were made in January and further development of the account is planned throughout 1990.
- BARTLE BOGLE & HEGARTY subsidiary The Lexington Street Group has installed MICHAEL's media scheduling and accounting package, Adpac. Adpac runs on either IBM PS/2 micros or Mid Range System/36 and AS/400 mini computers.
- WESTMINSTER City Council £230,000 contract for IBM LMS – Local Management of Schools – awarded to MICHAEL. Installations comprise 65 standalone and networked systems at 50 schools.
- BRIGHTON Borough Council is networking for Equal Opportunities and higher standards of Houses in Multiple Occupation with new IBM networks installed by MICHAEL.

Multimedia: yours to command

Add stereo sound, super VHS quality vision and touch screen control to IBM computer power, and you have Multimedia. However, Multimedia is NOT just another presentation package.

At Disneyland, for example, it is used for instantly recording and transmitting photo details of lost children right around the complex. Major retailers are looking at capturing complete catalogues and using intelligent touch sensitive screens for customer selection and ordering. Catalogues and pricing changes can be instantly updated from a remote central processor. A major car manufacturer is seeking to use video conferencing to ensure their most experienced engineers can inspect and analyse problems in different plants without having to travel.

Multimedia is the concept of the 90's. It offers users the opportunity to get more from their computers. Interactive video has been around for some time. It has, however, been the domain of specialist production companies where just pressing the disk could cost £40,000 and designing the material could add up to £100,000. Now, using a hard disc and software, authoring and professional collation is available to the PC user.

Two outstanding software products from IBM are spearheading this revolution in computers: IBM's Audio Visual Connection (AVC) and IBM LinkWay.

AVC allows the capture and editing of sound and images for the creation of special effects and presentations of outstanding resolution and colour. Quality sound and photographic-like pictures combine to offer stunning displays.

Providing similar facilities, IBM LinkWay is an easy to use authoring system which is well suited for the production of training and education material, again linking with a variety of other media to create a powerful teaching and presentation facility.

Use the same technology for developing staff skills or personnel training. Internal and external corporate presentations come alive with professional production style product and management information. Your computer becomes the friendly interface for information exchange in the 90's.

To service the growing interest in these converging technologies, MICHAEL Business Systems plc has formed a new Multimedia Division. Geoff Lembert has joined MICHAEL from IBM to head the new division.

MICHAEL is thus uniquely placed for the 1990's to extend its penetration into Corporate, Education and Training market places. The company has complemented its own sales, training and support personnel with business partners who are able to enhance its own skills base on hardware and software products.

Innovative multimedia seminars are being held at MICHAEL's premises in Burgess Hill. On 9th May there is a LinkWay educational and training presentation. On 16th May the first seminar in the UK to cover IBM AVC for corporate customers is being staged.

MICHAEL has already effectively demonstrated video conferencing by linking separate company stands at the IBM '90 Show earlier this year at the NEC, Birmingham. The company will also be exhibiting Multimedia with IBM at the PC User Show at Olympia on 19th to 21st June.

RAM Golf UK tee-off with MICHAEL

Maintaining a leading position in the expanding golf market has enabled RAM Golf UK, the United Kingdom distribution subsidiary of the RAM Golf Corporation of Chicago, to increase turnover from £1.5m in 1987 to £3.5m in 1989. In developing the business, it became obvious to RAM, that one piece of equipment was definitely not up to par for the course – its computer!

Faced with the need for a complete new system, RAM called in consultants, Touche Ross and Co to produce a specification on its computing requirements. This was submitted to several leading computer services companies for tender response.

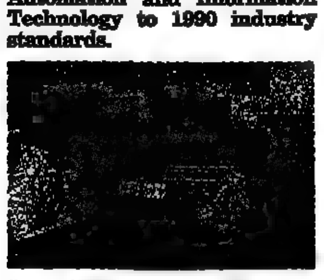
RAM managing director, Stuart Barber advises: "One dealer more than any other clearly demonstrated they understood our business problems. Furthermore, members of this dealer's sales team also possess professional accountancy qualifications in addition to computing expertise. These factors combined with the cost effectiveness of their proposed computer solution enabled us to confidently place the installation of our new computer system with MICHAEL Business Systems plc."

The MICHAEL solution that meets RAM's computing needs is an IBM local area network with eight workstations and a Model 80 fileserver running SMB fully integrated business applications software. Modules include Sales and Purchase Order Processing, Sales Analysis, Stock Control and Sales, Purchase and Nominal Ledger, aided by installation, implementation and training by MICHAEL.

RAM now has an effective grip to control its 420 product lines and initiate easy sales and profitability analysis and marketing data to 128 contracted golf club professionals and 1400 other outlets in the UK.

The Business of Education Training in the 1990s

Barnfield College, Luton, is using two new powerful IBM Local Area networks installed by MICHAEL Business Systems Plc to teach Office Automation and Information Technology to 1990 industry standards.



Ian Brooks and Virginia Kerridge of Barnfield College.

Ian Brooks, Barnfield chief administrative officer states: "By combining the image of IBM with the total competitive package offered by MICHAEL, we were able to go for the most powerful, most capable, most reliable and most used PC network in industry."

According to Virginia Kerridge, Barnfield senior lecturer IT, "The significant edge MICHAEL has over rivals is that amongst its many IBM accreditations, it is both a Systems Centre and Specialist Education Centre. This dealer knows the working practices of both industry and education."

The separate but identical Token Ring networks, located over three miles apart, run Novell Netware, QED 2 and a variety of software on the latest PS/2 micro channel machines. Each configuration has a 386 fileserver, a comms server and twenty 286 hard disk colour monitor MCA PS/2s.

Each comms server emulates a mainframe to communicate with the other network. Intelligent modems make use of the College's internal telephone system and enable students to access Prestel and other public bulletin services economically.

QED 2 software is the leading LAN front-end software. It provides key office functions such as electronic mail, diary and a meeting schedular as well as data manager, project planning and modem support.

MICHAEL has provided training at all levels. "It is no good installing state - of - the - art Office Automation and IT systems as Barnfield College now has, without due regard to quality staff training, concludes Ian Brooks.

Attwoods choose MICHAEL to aid their expansion

Attwood's Plc is the parent company of a group of companies involved in the Waste Management and Quarrying Industries with operations in the United Kingdom, United States and West Germany. Drinkwater Sabey Limited the principle United Kingdom subsidiary of Attwoods is a long established and highly successful waste disposal, aggregates and landfill company.

Drinkwater Sabey employed the services of an on-line computer bureau with customised stock and order processing systems which provided sales invoicing and sales analysis facilities. However, the company outgrew this service in a short time, its rapid growth soon overtaking the processing and reporting capabilities of the bureau. In addition, the company's board had decided to upgrade and improve day-to-day control of the business.

MICHAEL Business Systems was commissioned to design, develop and implement a variety of packages that included ticket production, invoicing and sales analysis and an IBM Mid Range System/36 computer was selected. This was subsequently enhanced to a "D" *Model* and currently supports some 55 users in remote locations comprising IBM PS/2 micro computers and 5250 terminals.

Together with Drinkwater's senior management, MICHAEL Business Systems team drew up a feasibility and user specification that defined this fast growing company's current and future requirements accurately.

A development phase followed in which these specifications were turned into a full technical design and implementation programme, and then, finally into systems and software to meet their specialised objectives. Continued enhancements and systems development involve planned introduction of local area networks at remote locations.

Attwoods endorse that a close working relationship was the key to the success of this project. The assocation continues, with MICHAEL Business Systems providing enhancements to increase productivity and cost-efficiency for the company. Drinkwater Sabey is currently considering the implementation of systems for the workshops which maintain Drinkwater Sabey's large commercial fleet using IBM PS/2 microcomputer networked on IBM Token Ring.

UK COMPANY NEWS

Kwik Save disappoints market

By Maggie Urry

SHARES IN Kwik Save fell 46p to close at 470p yesterday when interim pre-tax profits, for the 28 weeks to March 10, came in below market expectations at £39.5m, against £35.3m.

However, Mr Graeme Seabrook, chief executive, said the pressure on operating margins would be reversed in the second half, when the impact of non-recurring costs or of costs which also affected the second half of the previous year would no longer be felt.

The group raised sales by 28 per cent to £747.7m (£584.4m). Of the increase, inflation accounted for 5.5 percentage points, new Kwik Save stores 3.5, Victor Value stores acquired in February 1989 and converted to Kwik Save stores 7.2, and increased volume through comparable Kwik Save shops 12, a rate of volume growth well above the industry average, Mr Seabrook said.

But operating margins fell from 5.6 per cent to 5 per cent, as operating expenses rose. This trend would reverse in the second half with profits rising at a faster rate than sales.

Pressure on margins had come from the inclusion of Victor Value stores which operated at lower margins than Kwik Save stores; from refurbishment costs; introduction of electronic scanning which disrupted trade and meant more overtime payments; increased advertising spend; higher wages and short term problems with computer systems which needed updating.

The depreciation charge had risen reflecting capital expenditure, which was up from £18m to £29m in the half year.

Interest receivable had fallen from £2.5m to £2m because of higher stock levels relating to changes in warehousing, and because a corporation tax payment had been brought forward by three months, which had cost £700,000 in the half year, Mr Seabrook said.

Looking on the brighter side, Mr Seabrook said the group had reversed trends of about three years ago when it had been losing market share, customers were buying a smaller proportion of their groceries in Kwik Save and the average transaction was not rising as fast as inflation. Market share was now 7.4 per cent, he said.

The move to extend the ranges in the stores which had been made possible by the introduction of scanning – previously check-out operators had remembered the price of every item in the store – was still boosting sales. Now two thirds of sales were going through scanning tills.

He said 10 stores had been opened and three relocated in the first half which was fewer than hoped. About 20 would open in the second half mainly in-filling existing areas of operation. The group now had 35 stores in the London area which together were about breaking even, Mr Seabrook said, and had gained 1.7 per cent of the London market.

Asked about Dairy Farm, the Hong Kong based group which took a 25 per cent stake in Kwik Save in 1987, Sir Timothy Hartford, chairman of Kwik Save, said that although he had been cynical about Dairy Farm at first, the relationship had proved "remarkably friendly and constructive."

See Lex

GKN sells foundations business to management

By Clare Pearson

GKN, the UK automotive and engineering group, is selling its foundations business to the management for £26.2m.

The business, to be renamed Keller, formed a small part of GKN's industrial services division. Last year it made trading profits of £4.4m on sales of £101.5m from operations in the UK, US and West Germany.

GKN said yesterday that it viewed Keller as serving "limited markets of limited size." There were better opportunities for investment elsewhere.

The disposal did not imply it had any plans to restructure the rest of the industrial services division, where the aggregate trading surplus was £75m last year.

Keller provides services in the areas of foundation support, underpinning, ground retention, ground water control and seismic protection.

The management buyout is funded by Candover 1989 Fund, part of Candover Investments.

IEP raises holding in Utd Scientific to 26.2%

By Clare Pearson

IEP SECURITIES, the UK investment vehicle of Sir Ron Brierley, the New Zealand businessman, has been buying more shares in United Scientific Holdings, the defence contractor which narrowly escaped being taken over last year. It now holds 26.2 per cent of the equity.

IEP said yesterday it had bought a further 2.23m shares, increasing its stake by about four per cent.

USH has said that IEP, which first declared a 9.3 per cent holding in February, has indicated that it does not intend to bid for the company.

Yesterday Mr Nick Prest, USH's chief executive, said: We have discussed policies for the future of the company with them and there appears to be a coincidence of views. Clearly, if there were a disagreement that could be difficult."

Shares in USH closed yesterday unchanged at 68p.

Meggitt, the specialist engineering group, last November dropped its £104m bid for USH even though it had won acceptances representing 83 per cent of the shares.

It cited adverse financial information revealed by USH after the bid was launched.

Expedier more than doubles profits to £1¼m

Expedier Leisure has made "enormous progress" towards its aim of being one of the leading suppliers of services to the sport, exhibition and entertainment industries.

In 1989 it lifted turnover 61 per cent to £10.56m (£6.56m) and more than doubled pre-tax profit to £1.25m (£583,000).

Earnings per share were 5.7p (4.2p). However, after a £1.84m extraordinary loss on the sale of subsidiaries, there was a retained deficit of £1.04m (credit £87,000). Therefore, no ordinary dividend can be paid; but the directors are planning a capital reduction and intend to pay an interim of at least 1p in October, followed by a final later.

Mr Conor O'Brien, chief executive, said the group was clearly defined into services and products. Services covered sporting events, conference and exhibition, and entertainment, and lifted turnover from £2.7m to £4.1m and doubled operating profit to £700,000.

Products achieved turnover of £3.7m (£500,000) and operating profit £300,000 (£200,000). Activities are the supply of clay pigeons and manufacture of walking sticks. Scanrowas sold for £1 leaving valuable long leasehold properties to be disposed of.

At December 31 borrowings had risen to £4.4m but by end-1990 should be below £3m through the sale of surplus assets and the strong cash flow.

Globe confirms no SE action

Globe Investment Trust officially confirmed yesterday that it had been informed by the Stock Exchange insider dealing unit on Tuesday that no further action was proposed in respect of the acquisition by the British Coal Pension Funds of a stake in the company from Standard Life.

The company's board said yesterday that it wished to disassociate itself "from any suggestions that have been made in the press and elsewhere other than to that effect."

Runciman bid unconditional

By Clare Pearson

The £65m cash offer for Walter Runciman from Avena, Swedish property, construction and security concern, was declared unconditional yesterday.

Avena said it now owned a total of 44.3 per cent of the shares and had received acceptances in respect of a further 7.9 per cent.

Runciman finally recommended Avena's final terms of 690p in cashlast week.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Bellway, Caskat, Glasgow Income Trust, Leeds Group, PWS, Wellcome.
Finals- Boot (Henry), Davies & Newman, Propeller, Rathbone Brothers, Ropner, Worth Investment Trust.

FUTURE DATES

Interims-

Blick	May 24
Circaprint	May 10
Concentric	May 15
ECC	May 14
Stakis	May 10
Tomkinsons	May 16
Finals-	
Analysis Holdings	May 15
Hi-Tec Sports	May 5
London Finance & Invest	May 8
Merchant Manufactory Est	May 11
Mezzanine Capital Inc Tst.	May 8
Ocean Wilsons	May 17
Towles	May 4
Walker Greenbank	May 14

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
BLP Group § ....fin	0.5	-	2.35	2	3.6
Europa Minerals ....fin	1	July 20	-	1	-
Fitzwilton ....fin	2♣	-	1.5	2.5†	3.5☆
Kwik Save ....int	3.7	July 2	3.2	-	10.5
Royal Bk Scot ....int	2.8	-	2.4*	-	7.2*
Shiloh ....fin	1.75	-	1.5	2.625	2.375
Tate & Lyle ....int	3.3	July 23	2.9	-	9
Usher Walker ....fin	7.5	-	7	11	10

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market. ♣Irish currency. ☆For 18 months.

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY- Indices of industrial production, manufacturing output (1985=100); engineering orders (£ billion); retail sales volume (1985=100); retail sales value (1985=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod.	Mfg. output	Eng. order	Retail vol.	Retail value*	Unem-ployed	Vacs.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OUTPUT- By market sector; consumer goods, investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1985=100); housing starts (000s, monthly average).

	Consmr. goods	Invest. goods	Intmd. goods	Eng. output	Metal mnfg.	Textile etc.	Housg. starts*
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXTERNAL TRADE- Indices of export and import volume (1985=100); visible balance; current balance (£m); oil balance (£m); terms of trade (1985=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserves US$bn
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FINANCIAL- Money supply M0, M2 and M4 (annual percentage change); bank sterling lending to private sector; building societies' net inflow; consumer credit; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M2 %	M4 %	Bank lending £m	BS inflow £m	Cnsmr. credit £m	Base rate %
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INFLATION- Indices of earnings (1985=100); basic materials and fuels; wholesale prices of manufactured products (1985=100); retail prices and food prices (Jan 1987=100); Reuters commodity index (Sept 1931=100); trade weighted value of sterling (1975=100).

	Earn-ings	Basic matls.*	Whsale. mnfg.*	RPI*	Foods*	Reuters* cmdty.	Sterling
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

*Not seasonally adjusted
¶Net changes in amounts outstanding, excluding bank loans.

Fitzwilton rises sharply to I£12m

By Jane Fuller

FITZWILTON, the investment group headed by the Irish-American businessman Mr Tony O'Reilly, saw its pre-tax profit surge to I£12.15m, or £11.8m, in 1989.

That compares with I£5.25m achieved in the previous 18 months. Sales at the acquisitive group, which has just taken a stake in the loss-making glass and china concern Waterford Wedgwood, multiplied to I£244.14m (I£21.35m for 18 months). The 1989 figure included a seven-month full contribution from Keep Trust, the UK car distributor.

Mr Patrick Dowling, a member of Fitzwilton's executive committee, said Keep had five Ford and five General Motors dealerships. The latter had benefited from the success of the new Vauxhall Cavalier.

Acknowledging a forecast 10 per cent downturn in UK new car sales this year, he responded that 70 per cent of Keep's profit came from servicing, repairs and financing.

On the UK-based cash and carry side, which included five months from M6, Mr Dowling said profit was up 25 per cent.

In a full year, profit contributions would be: motoring 40 per cent and cash and carry 30 per cent, with the rest coming from the manufacture, in Ireland, of chest freezers and reflective road signs and vehicle licence plates.

Because of share issues, earnings per share advanced less rapidly to 11.2p (9.3p).

Last month the group announced the issue of about 33m shares at 120p to raise I£39.6m. Of this, I£25m was earmarked for Fitzwilton's share of a 29.9 per cent stake in Waterford Wedgwood acquired with Morgan Stanley, the US investment bank.

Mr Dowling said the impact on Fitzwilton of Waterford Wedgwood, which last year lost I£29m after tax, would be very limited because it owned only 9.4 per cent.

The balance of the cash raised would help to reduce Fitzwilton's borrowings of I£22.5m and provide scope for further purchases. The two prongs would be the core cash-and-carry and motor businesses, and branded products.

A final dividend of 2p makes a total of 3.5p (3.5p for 18 months).

● COMMENT

Although full-year contributions from Keep, M6 and Novum, the freezer maker, will ensure that sales continue to surge ahead, earnings are expected to fall because of the extra paper. On Waterford Wedgwood, the first question is will the investment pay off? The current strike is seen as a crucial trial of strength. The second question is: will it sap Fitzwilton's management strength? Mr O'Reilly, also chairman of Heinz, and Mr Kevin McGoran, chief executive, join the Waterford Wedgwood board. The Fitzwilton camp plays down the diversion and says a strong team remains. But what of Fitzwilton? It has the scope to expand its core areas aggressively, particularly by picking up languishing garages. Yet in the long term its ambitions in the branded products field suggest that the down-to-earth core might be used to generate cash for more glamorous forays in which the benefit to earnings takes rather longer to filter through. A pre-tax profit forecast of I£16m gives a prospective multiple of about 10, which seems about right.

Far-reaching implications of Crown's sale

Ian Hamilton Fazey looks at the Williams' paint disposal to Nobel Industries

MR BRIAN McGowan, chief executive of Williams Holdings, says that its UK-based Crown Berger paint business was not exactly for sale but always open to offers. Having pruned it down and separated out the best bits to keep, Williams was not all that happy with it.

So when Sweden's Nobel Industries came along with a minimum of £205m he grabbed it.

With UK consumer spending uncertain, the sale should have a beneficial effect on Williams' financial performance this year, but it will also have far-reaching implications in European, if not world, paint markets. Crown Berger is one of the better regional players in a highly competitive market where ownership has for 10 years been concentrating among a few, mainly chemical industry giants.

It is second in the UK to ICI, but its annual sales of around 100m litres made it about eighth in Europe, a similar size to Becker, Sweden's market leader and Nobel's rival. The purchase has moved Casco-Nobel, the Swedish group's paint division, from mid-league to near the top with Akzo and ICI, producing about 250m litres.

Mr Ove Matson, Casco-Nobel chief executive says that this will soon rise to nearer 300m as the company advances. It is strong in Scandinavia, France and Italy but the last of these is a fragmented, if growing market, with hundreds of companies. Crown will give the Swedes solid stability in a good long-term market, whatever the temporary ups and downs of the UK economy.

ICI warmly welcomed the deal yesterday: "Whatever new competitive pressures this creates, we think that it is a good thing that Crown is going into the ownership of a company that is in the long-term paint business."

However, ICI is more relieved that the buyer was not Akzo, the Netherlands chemicals giant which is its most aggressive competitor in Europe. That would have left ICI well in second place as the European single market approaches in 1992, whatever its strengths as the world's largest paint company.

Mr McGowan was expecting an offer from Akzo after weeks of rumours – untrue, he says – that Crown was for sale.

Certainly, there have been question-marks in the City over Williams' exposure to the consumer sector, squeezed by current economic conditions.

There have also been queries over how quickly the group's gearing levels – 40 per cent at end-1989 after deducting assets (not Crown) held for sale – might allow a return to the acquisition trail. Williams had said that it believed there might be buying opportunities in the wake of the general downturn in business levels, although remained non-committal about its own plans.

Yesterday, Mr McGowan admitted to being ready to unload for the right price. What was left of Crown seems to have been sitting uneasily in the Williams conglomerate. It made 10.8 per cent on sales last year – good by paint industry standards, but not by Williams'.

Decorative paint, the sector Crown is mainly in, is at the low added value, low price and relatively low technology end of the building and home products market that Williams is in. Moreover, the business is only number two in the UK market, which is dominated by ICI's Dulux brands. Mr McGowan says that Williams has long been unhappy with this lowly position and saw no prospect of it changing.

Indeed, Crown's two technological innovations – Solo, its one-coat gloss brand and Advance its emulsion equivalent – have done well. However, the relative shares of Crown and ICI remain almost the same; industry sources say that any change appears to be among existing Crown brand loyalists switching within the Crown portfolio.

This means better added value – the new brands sell at a premium of £2 above the normal £10 for 2½ litres – but not enough for Williams, which wanted a faster rate of improvement.

Mr McGowan also said yesterday that he feared ICI's response. The market was getting tighter as consumer spending started to fall, leading to worries that ICI, taking a longer view, would be less worried about embarking on a price war.

ICI dismissed this view, claiming that Solo and Advance were good for the industry simply because they added value, forcing competition in quality. It now expects even more from Casco-Nobel, which it anticipates will take a longer view than Williams on the speed of returns from research and development

An indicator of Casco-Nobel's commitment is that it is paying a high price for Crown, equivalent to about a year's turnover. Mr McGowan says that it works out at a price-to-earnings ratio of about 15 and is understandably pleased.

However, Crown's assets are worth £102m in the books, and are modern, and Mr Matson says that running a decorative paint business is about market share and marketing and that this determined the value of Crown to Nobel.

The rise of out-of-town sheds serving DIY home improvement markets has halved the numbers of retail outlets for paint by nearly half from 30,000 in 1979. The sheds determine marketing strategy, not the paint companies.

Shelf space is reserved for three brands only: the two leaders, which spend most on television advertising, and the retailers' own-label products. Television spending by the brand leaders, ICI and Crown, mirrors their respective market shares. ICI has 34 per cent and spends at least £6m, double that of Crown, which has 17 per cent.

On top of that, Crown has about a quarter of the own-label business, which accounts for 40 per cent of all sales. ICI, like Kelloggs in cornflakes, does not make paint for anyone else.

Mr Matson thinks that £205m is therefore fair, although he may yet end up paying more: for every £1 of sales above £205m, Casco-Nobel will have to pay another £2, up to a maximum total price of £240m.

However, Williams wins either way: if the price stays at £205m, Crown will have missed budget. If Williams had not sold, that would have meant at least £3.5m off this year's projected profits.

Swedish bid values Cont Microwave at £15.8m

By David Owen and John Burton

USM-quoted Continental Microwave (Holdings) yesterday announced the terms of a recommended cash offer from Pharos Holdings, subsidiary of Nobel Industries of Sweden, which values the Luton-based manufacturer of communications equipment at £15.8m.

Under the terms, Continental shareholders are to be offered 230p per ordinary share and 112p per convertible. The group's directors and certain of their family members who hold in aggregate 26.7 per cent of the ordinary shares and 0.1 per cent of the convertibles have undertaken to accept the bid in respect of their entire holding.

The shares rose 85p to close on a par with the offer price at 230p.

Mr David Young, Continental chairman, said that the deal would enable the company "to exploit more fully its existing and future opportunities." He said "we have felt uncomfortable that we could be the target of an unwelcome bid".

In March, the group reported interim pre-tax profits of £126,000 (£26,000 loss).

B&C and plans for Celltech stake disposal

By Peter Marsh

CELLTECH, a private biotechnology company, said yesterday it was

looking for a senior industrialist to take over as chief executive and chairman. The announcement appears to mean the company is likely to remain in the hands of a range of shareholders for the foreseeable future.

Celltech's future has been uncertain for some months as a result of a decision last year by British & Commonwealth Holdings, the company's largest shareholder, to put its 36 per cent stake up for sale.

ogy many had

B&C's share in Celltech is thought to be worth about £36m. It has become clear in the past few weeks that the stake is unlikely to be sold to a single buyer, in which case control of Celltech would remain split between a number of shareholders.

In line with this, Celltech said yesterday it had decided to press on with settling the question of senior management at the company.

Mr Gerard Fairtlough, chief executive of Celltech, said at the end of last year he would retire shortly.

Baring Brothers has canvassed a number of large drugs companies about the idea of taking over Celltech. Few have been keen to do this although there is some interest in taking up part of the B&C stake.

PUBLIC WORKS LOAN BOARD RATES

Effective May 2

Years	Quota loans repaid by EPI†	At††	at maturity§	Non-quota loans A* repaid by EPI†	At††	at maturity§
1			15⅛			15⅞
Over 1 up to 2	15	15	14⅝	16	16	15⅜
Over 2 up to 3	14¾	14¾	14¼	15¾	15¾	15
Over 3 up to 4	14½	14½	14	15½	15½	14¾
Over 4 up to 5	14⅜	14¼	13¾	15⅜	15¼	14½
Over 5 up to 6	14¼	14⅛	13¾	14¾	14⅝	14¼
Over 6 up to 7	14	13⅞	13⅝	14½	14⅜	14⅛
Over 7 up to 8	13⅞	13¾	13⅝	14⅜	14¼	14⅛
Over 8 up to 9	13⅞	13¾	13½	14⅜	14¼	14
Over 9 up to 10	13¾	13⅝	13⅜	14¼	14⅛	13⅞
Over 10 up to 15	13⅝	13⅜	12¾	14⅛	13⅞	13¼
Over 15 up to 25	13⅛	12½	12⅛	13⅝	13	12⅝
Over 25	12⅜	12⅛	12⅛	12⅞	12	12⅝

*Non-quota loans B are 1 per cent higher in each case than non-quota loans A. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

French seek to calm an unhappy marriage

Nikki Tait reports on CCF's decision to intervene at Framlington

A few weeks ago, Mr Paul Loach, managing director of Throgmorton Trust, appeared to have reached the end of his tether.

Asked, probably for the umpteenth time, what the atmosphere was like at the trust's Framlington fund management subsidiary, he leapt across the plush lobby in the group's new Broadgate offices and flung open a door. It revealed a typical fund management office awash with low-key diligence. There was definitely no blood on the carpet, not even a raised voice.

This, it should be admitted, is in some contrast to the picture regularly painted of the fund management business which Throgmorton acquired after a bid struggle in 1988. Over the past couple of years, disaffected employees on the Framlington side, have given the press a rich vien to tap, and few adverse events – mainly centring on staff departures – have gone unnoticed.

The saga has undoubtedly been one of the most painful running sores the City has ever endured. In essence, it has represented a genuine culture clash between two "people" businesses. That, in turn, has led to some very public sniping. And a large number of innocent employees and investors have been caught in the cross-fire.

Yesterday, the "solution" materialised. Credit Commercial de France, the French banking group which sold a minority stake to Throgmorton in 1988, said that it would re-acquire a 25 per cent interest in the fund management business. This time, however, it will have the ability to move to a majority position. It will also get an initial three seats on the 12-man board, and its president, Mr Rene de la Serre, talked in flowery terms about creating "a unique European fund management group."

But if CCF's arrival seems like a much-needed intervention, it also poses as many questions as it answers. For a start, will it stabilise the situation at Framlington, particularly in terms of further senior staff outflow?

Secondly, what does the apparent change of heart say about the strategy of the French bank, and changes underway in the fund management sector generally? And, thirdly, are there further general lessons about hostile predatory action for "people" businesses?

The background is complex. In a nutshell, Framlington, a quoted fund management company formed two decades earlier by partners of stockbrokers Laurence Prust, was approached by Throgmorton Investment Management Services in 1986.

Throgmorton, a privately-owned fund manager, differed from Framlington in that most of its funds were in the investment trust sector. Both sides saw the logic of joining forces – unit trust funds are high-margin but volatile, while investment trust money is more stable but less profitable – and Framlington bought TIMS for £12.5m.

ASSETS UNDER MANAGEMENT at Nov 30 1989 (£m)	
Unit trusts	600
Investment trusts	515
Private clients	271
Institutions/ charities/life funds	375
Pension funds	667
Total	2,428

As a result of the deal, Throgmorton Trust, the largest of the TIMS funds, ended up with 15 per cent of Framlington, making it the second largest external shareholder after CCF, which held 28.8 per cent.

Within a year, management styles at Framlington and TIMS had clashed. The French decided they wanted out and Throgmorton – representing the TIMS camp – bid for Framlington. Framlington searched vainly for a white knight, but eventually wrung some marginal improvements in Throgmorton's terms and recommended the offer.

The internal situation, however, did not improve. Mutterings continued, boosted last year by news of a Department of Trade and Industry inquiry into insider dealing in respect of share sales by directors of Acatos & Hutchinson, a small edible oils group. Mr Bob Seabrook, the former investment manager of Throgmorton, was one of the directors involved. Mr Seabrook, along with other directors, denied any wrong-doing.

There was further angst over the sacking of Mr Patrick Evershed, a long-established Framlington analyst – a move later deemed by an industrial tribunal to constitute unfair dismissal. That prompted Mr Bill Stuttaford, who had stayed on as Framlington's chairman, to leave altogether, while Mr Anthony Milford resigned from the board.

Some senior Framlington staff were still tied by "golden handcuffs", but overall the dissident lobby could list about a dozen departures, ranging from fairly junior employees to some senior fund managers and ex-Laurence Prust partners, such as Mr Christopher Whitehouse or Mr Ian Rodgers.

So will CCF's re-emergence put an end to the unsettled situation?

Yesterday, there seemed to be a feeling that the move would probably help, despite the bank's previous role. CCF, for its part, was keen to emphasise the complementary strengths of the two businesses – its own European, Canadian and Far East connections, combined with Framlington's UK/US presence and itsexpertise on the equity side. The themes echoed those sounded in many of the recent links formed recently between continental banks and UK fund management groups.

However, Mr Loach said there would be an unclipping of the handcuffs, together with the associated "non-compete" restrictions. These resulted from a five-year arrangement, set up when Laurence Prust formally cut its links with Framlington, and not previously due to expire before 1991.

Certain sums have been paid annually to ex-Laurence Prust partners and anyone leaving early foregoes the money not yet paid. The size of these benefits have never been quantified in detail, but the annual increments are believed to be worth about £50,000.

This "uncuffing", yet to be formally notified, makes the structure of the CCF deal interesting. Although there is a cash down payment, the bank is basing the second payment on 2.75 per cent of funds under management next year. Mr Loach, however, denied that this was a precaution in case any funds left the group. It was rather, he said, a period in which details of the eventual marriage could be settled.

Even so, analysts suggest that the price which the French are paying for their Framlington "re-entry" is fairly generous. According to Mr Philip Gibbs, analyst at brokers Alexanders Laing & Cruickshank, the effective price-tag as a multiple of fee income is in line with other recent deals but, as a percentage of funds under management, "represents the best price since the summer of 1988."

As for the French change of heart, that was greeted with some raised eyebrows in London and only partially explained by Mr de la Serre yesterday. He suggested that "the market has changed"; and that when CCF previously sold its Framlington stake "it was not in our mind to be so international." Now, he said, CCF's aim was to be a European investment bank.

Even if there are no further ructions, the character of Framlington will have altered irrevocably. For unitholders, there have been some increased charges, broadly forecast when Throgmorton sought control, and one independent adviser yesterday described recent fund management performance as "rather pedestrian". That said, at least from Throgmorton's viewpoint, there has been no great outflow of funds so far.

But with almost everyone involved admitting privately that they would not proceed in quite the same way again, perhaps the enduring lesson of the affair is the inadvisability of hostile bids in "people" business.

Bob Hadley

Shareholders who attended Unilever's annual meetings in London and Rotterdam yesterday were rewarded with 1-ounce bottles of Jubilé de Diamant, a limited-edition perfume formulated to mark the 60th anniversary of the corporate alliance which created the Anglo-Dutch food and consumer group, writes Clay Harris.

More than 100,000 bottles of the French perfume – a combination of rose, jasmine, orris, rare woods and mosses, lily of the valley and "a wisp of heliotrope" – will be distributed to many Unilever staff worldwide, but will not be sold commercially. The choice was appropriate after a year in which Unilever's acquisition of Fabergé and Elizabeth Arden made it one of the world's largest cosmetics companies.

Moreover, it reflected the nostalgic nose for fragrances of Sir Michael Angus, chairman (above), who began his business life in toiletries. He said he perceived a "sniff of lilac" although the formula gave no indication any was included.

The board emerged from the London AGM smelling of roses, capped by a fulsome encomium from Mr Hugh Jenkins of Prudential Portfolio Managers. Only a few thorny questions punctuated the day, which saw no new financial information because Unilever's first quarter results are due on May 11.

Sir Michael, whose histrionics even managed to squeeze a few chuckles out of the dry-as-dust resolution to approve the dividend, was unfazed by the more pointed inquiries.

To a call for Unilever to support the "gallant Lithuanian people" by refusing to sell technology or products to the Soviet Union, he said: "I have a feeling that we probably can't do much to help Lithuania, Latvia and Estonia except to have sympathy." In any case, he said, the Soviet Union's "ability to buy goods – let alone value-added goods – is extremely doubtful in the short term."

He was able to give the same shareholder more satisfaction to an inquiry about a food ingredient. After consulting his technical colleagues, Sir Michael said: "No, we don't use it any more, whatever it may be." However, he was adamant that Unilever intended to continue salmon farming despite last year's losses; the operations in Scotland and Chile were not environmentally unfriendly, he maintained.

Questioned about Unilever's record in promoting women to executive positions, Sir Michael's positive tone was somewhat undermined when he observed that a fellow director had given "an undertaking that before he left the board, there'd be a woman on it. All I can say is, he's quite young."

But if there were no women directors, at least he could point to Mr Onno Ruding, the former Dutch finance minister, who joined Unilever NV's advisory board yesterday. Cocking a snook at Barclays, Sir Michael said: "So we have our chancellor too."

BLP 10% rise helped by North America

By Vanessa Houlder

BLP, the USM-quoted laminates and mouldings company, yesterday announced pre-tax profits of £2.10m for 1989, a 10 per cent increase over the £1.91m scored last time.

However, earnings per share fell from 8.5p to 3.81p, reflecting the shares issued to buy Woodtape Group, an edge banding group and Berg Group, a West German wrapped mouldings manufacturer.

BLP also announced the sale of TBS, the laminates companies bought in 1988, to its original owners for £1.75m. TBS, which sells to construction and shop fitting markets, saw its profits fall last year and a recovery to 1988 profit levels is not envisaged in the short term. The company said it had changed shape since acquiring TBS and it wished to focus on core businesses.

Profits in the UK dropped from £2.51m to £588,000 in 1989, reflecting the difficulties of the furniture and DIY industries. North America contributed an operating profit of £1.02m, compared with a loss of £397,000 previously, and £802,000 came from Europe.

The company said that current trading conditions remained difficult because of high interest rates. However, it expected some synergy benefits to be realised this year.

A final dividend of 0.5p was declared, making a total of 2p (3.6p).

John Menzies acquisition

John Menzies has purchased Cargosave, a leading IATA wholesale air cargo consolidator. Cargosave offers wholesale air cargo services to the air freight forwarding industry.

Cadbury planning pref. share issue in Canada

By Vanessa Houlder

CADBURY SCHWEPPES, confectionery and soft drinks company, is proposing to raise between $150m and $250m by the issue of cumulative perpetual preference shares in Canada.

The shares, which will not be listed on any exchange, will reduce group borrowings, which were increased last year by £400m after several acquisitions.

The issue will provide US dollar and Canadian dollar denominated funding, which will reduce its currency exposure.

At the group's annual meeting yesterday, Sir Graham Day, chairman, said that progress so far in 1990 was in line with plans.

He warned that, given likely interest costs and the bias of profits to the second half, the interim results would not indicate the trend for the full year, although they should be in line with expectations.

● Molins, the much-bid for manufacturer of cigarette machinery, held a short and subdued annual general meeting yesterday making only a fleeting reference to the current £76m cash offer from Leucadia National Corporation, the US manufacturing and financial services group.

Mr Neil Clarke, Molins chairman, said: "This bid is completely inadequate and is yet another attempt to acquire on the cheap the value of Molins which belongs to all shareholders. We shall continue to defend it vigorously on your behalf."

Euromoney Publications

Euromoney Publications is buying Camrus Airport Publishers for £1.15m cash and not £700,000 as previously published.

Mr Jeremy Richardson, the controlling shareholder, will receive a £500,000 down payment, plus a further maximum of £650,000 related to turnover.

TECHNOLOGY

Della Bradshaw, concluding a series on Japanese manufacturing success, describes the relationship between electronic equipment makers and suppliers

Quality game of follow the leader

The expression "shitauke gaisha", or subcontract company, is as out of date in the world of Japanese electronics as the expression tradesman's entrance is in the European business community. Instead, Japan's blue chip electronic equipment manufacturers prefer the phrase "kyoryoku gaisha", or co-operating company.

This co-operating relationship between the equipment maker and its suppliers is characteristic of Japan's electronics industry – as well as its car industry. It is one of the central planks which supports product quality, according to Tadao Kagono, professor of business administration at the University of Kobe. "About 90 per cent of the quality of the products is dependent on the quality of the parts that go into them," he says.

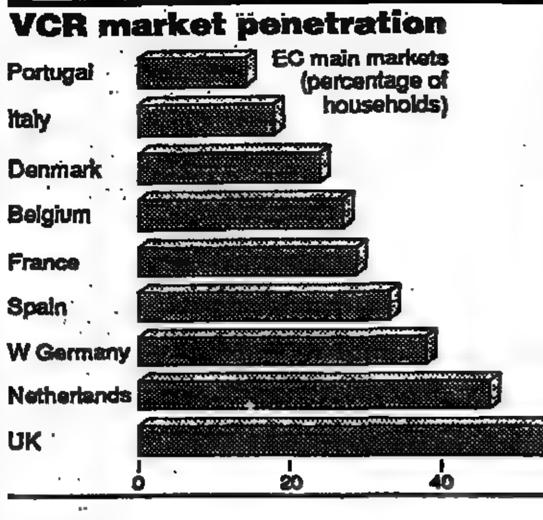
Whereas in Europe and the US parts manufacturers – the widget and cog makers – are usually viewed as the least glamorous sector of the electronics industry, in Japan they are more frequently recognised as innovative technology companies. "Small entrepreneurial companies grow up round the big assembly companies like Matsushita, and start off as suppliers to them," says Kagono. "When they acquire those skills then they can become global parts suppliers in their own right."

The problem, says Norinobu Hattori, senior manager for quality at Toshiba's portable computer factory in Tokyo, is to find a parts supplier which can shadow the development curve of the big manufacturers and keep up with their latest designs. If they achieve this, the co-operating relationship is a long-term one, extending beyond the lifetime of a specific product.

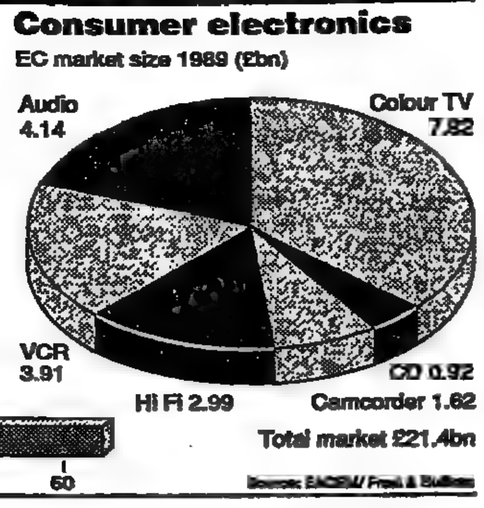
Many western parts suppliers find this concept hard to digest, says Kagono, citing the example of the UK arm of one of Japan's largest electronics companies which tried to take the same approach with a UK-owned supplier. "The Japanese company was amazed that after they had agreed on the development of one component, the UK company was prepared to stop there," reports Kagono.

The Japanese manufacturing system has spawned parts suppliers which rank with many of Europe's largest and most prestigious electronic equipment manufacturers. Most European consumers will be familiar with the names of Sanyo, Sharp, Sony or Toshiba.

VCR market penetration



Consumer electronics



Source: EACEM/ Frost & Sullivan

But the name of the Alps Electric Company is more likely to be met with a stunned silence.

Despite its western-sounding name, Alps is a Japanese company. It generated a turnover of Y376.7bn (£1.45bn) for the year ending March 31 1989.

Alps has opened manufacturing facilities where its Japanese customers need its products. It has more than 20 plants as far afield as Australia and Brazil, France, and Malaysia. In 1984, when many Japanese electronic equipment suppliers began moving their manufacturing bases to Europe, Alps established a base in Milton Keynes.

In the UK, Alps specialises in making components for the videorecorder industry, such as tuners or radio frequency modulators, supplying both Japanese manufacturers and indigenous European equipment makers. Prise the back off one of today's videorecorders and it would be a fair bet than many of the widgets tucked inside come from Alps.

Tumbling off Alps's international production lines are such things as electronic switches and television tuners, floppy disk drives and keyboards. The components on their own may not be very exciting. But together they comprise the bulk of the electronics industry's most popular products.

The expertise of these "co-operating" companies is not in designing and producing specialised chips – this is usually kept a closely guarded secret by the companies who have designed the products. Instead, their strength is in producing components of high quality and reliability that go into specific breeds of products – videorecorders, colour television sets or video cameras.

"The key point is how to produce things," says Kyoshi Watano, managing director of Alps in the UK. "The product designer has to think of the production process – the machinery and the method – when they design the product. The quality, cost and delivery time depend on it."

As miniaturisation has progressed, Watano points out, the production process has had to become more automated to handle the tiny devices, and the parts makers have had to develop their own sophisticated machines to do the job.

The current pinnacle is a machine designed, manufactured and used by Alps which mounts nearly 300 tiny components on to a printed circuit board at one fell swoop of its robotic arm.

Employees from all the firm's European competitors who visit the factory in the UK are shown the machine, because, Watano says proudly, there is no risk of them copying the technique – they do not have the capabilities to do so.

Quality does not stop there, he says. There needs to be a "total approach", with the staff properly trained to use the machines in order to maintain the quality. One hundred of Alps's UK staff, for example, have been sent to Japan for special training.

Watano is quick to highlight continuing developments in manufacturing techniques, many intended to reduce the costs of producing older technologies – colour televisions or videorecorders, for example. In the UK Alps has developed a technique to build four videorecorder modulators on one board. Once stuffed with components the boards are snapped apart into the four different units.

The dependence of the equipment makers on the high quality and reliability of components is highlighted by Kiyohei Kasaba, deputy general manager of Hitachi's consumer electronics division, in Tokyo. He point out that 60 to 70 per cent of all components for his company's consumer goods – videorecorders and video cameras are the most popular Hitachi products – are bought in from parts suppliers, usually the same parts suppliers that make widgets for Matsushita, Sony and Sanyo.

Given this, one difficult thing for the supplier is to maintain the confidentiality of the customer. "Confidentiality is our life," says Watano. But he believes that Alps's independence as a supplier means manufacturers are prepared to divulge information early in the development cycle.

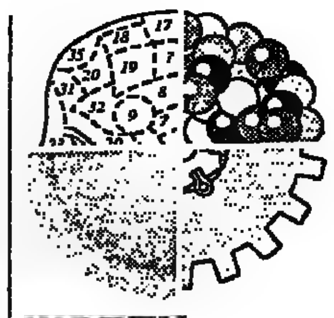
The proof is in the pudding: Alps claims to be the world's leading supplier in certain components, such as power supply switches, devices needed by all electronic equipment which uses a power supply. Alps claims to have cornered between a 55 and 60 per cent of the world market.

Matsushita, which also makes many consumer electronics goods under the Panasonic and Technics brand names, is Alps's main adversary in the Japanese components market.

By keeping silent Watano believes the co-operating relationship enables his company to have access early in the design cycle for new products so that they can be first in line with the components. Nevertheless, companies such as Alps have to carry out their own research and development work in order to keep up with their customers, but mainly in basic techniques – materials, such as ceramics or magnetics, and manufacturing techniques.

In Milton Keynes Alps is undertaking development work, but not basic research, for the European market. Much of that is involved with making components to conform to European standards, says Watano.

Internationally, the strength of Japanese component makers means that Japanese standards are becoming more widely accepted as the international norm. As Watano points out: "Nowadays most US companies use Japanese-designed components."



WORTH WATCHING

by Della Bradshaw

Computers listen to radio signals

ONE of the biggest problems with installing a network of office computers is where to house the mass of spaghetti wiring which inevitably accompanies it.

The answer could be to use radio signals between the different computer terminals. Telesystems, of Toronto, has developed a radio-based local area network, called Arlan, which will be available in the UK from ChaseCom, of London, in the autumn.

Arlan uses a technique called spread spectrum technology, which means that the data is spread over a broad band at a much lower density than conventional radio signals. The advantage of the technique, developed originally for high security military applications, is that the signals are difficult to detect by would-be tappers and there is little chance of interference from other radio sources.

The system is effective between IBM and compatible PCs sited up to 90 metres apart, even when separated by walls.

Lubricants that bear the strain

BEARINGS emerge everywhere, from the largest, greasiest machine to the fan in an electric oven. Wherever they are used, they need lubricating.

Until recently there have been two main types of lubricants: silicone-based ones which perform well in the heat, and organic greases which withstand high pressure. In situations which required both – a domestic washing machine for example – two different lubricants often had to be used.

To overcome the problem, the Molycote division of Dow Corning, in Munich, has developed a lubricant which can happily withstand temperatures of 180 deg C as well as extreme pressure. It uses a combination of a lithium complex and polyester oil.

Although the Molycote BG 20 lubricant is synthetic it is biodegradable. The manufacturers say that after three weeks 90 per cent of the oil decomposes.

A tighter grip on adhesives

GLUE can be a sticky subject, particularly if it loses its grip at the critical moment and the two pieces of material come adrift.

To make sure adhesives do their job properly, Pera, the contract research company based in Bath, has developed a vision system which keeps an eye on how robots on the production line apply the glue. The aim is to ensure that the right amount of adhesive is applied in the right place, be it on a cooker or a car body.

The vision system uses a charged coupled device – the photo-electric circuitry which is used in video cameras. The images from the production line are transmitted along an optical fibre pipe to the production control computer.

Sun workstation rises faster

AS the workstation becomes more popular as a tool for carrying out large processing tasks, even this speedy desktop machine is beginning to slow down under pressure of work.

Sky Computers, of Chelmsford, Massachusetts, has developed a way of upgrading Sun workstations to make them go even faster. Its Skybolt board increases the machine's processing speed by between seven and 20 times. The board contains two Risc (reduced instruction set computing) microprocessors from Intel, the i860 and the i960.

The UK distributor of the board, MicroSystem Services, of High Wycombe, believes the board will find a home in such applications as financial modelling, seismic analysis or simulation.

The package's vanishing act

A PACKAGING material which dissolves in water but is not affected by solvent-based chemicals has won its inventor this year's Institute of Packaging award as Packaging innovator.

David Edwards developed the packaging concept for Rhone-Poulenc Agriculture, part of the French Rhone-Poulenc group. Although initially developed for use in agrochemicals it could have applications in many other industries.

The package comprises a pouch made of polyvinyl alcohol, a water-soluble plastic. But when filled with solvent-based herbicides it maintains its toughness.

The filled sachets are then housed in an injection moulded polypropylene pot, from which they can be dropped straight into a tank of water. There, the packaging dissolves and the herbicide is diluted.

The advantage of the packaging is that it minimises the chances of the chemical touching either humans or the outer packaging, which is discarded.

Preserved tree keeps its looks

OPEN plan offices often seem like a forest of greenery these days, with tropical plants sprouting from every corner.

But after a few months the air conditioning and heating often reduce the poor shrubs to a wilting mass.

Enter the preserved tree. Developed in the Netherlands, by Shemex of Aalsmeer, and sold in the UK by Inscape, of London, the trees require no light, no water and no soil – just a dust down every three months or so.

The trees are preserved by dipping their roots in a chemical soup which the plant sucks up in the same way as a flower in a vase drinks water. The main chemical in the solution is glycerine.

The only problem with the trees is they do not grow – which may be an advantage, both in the case of the palm tree on the one hand and the bonsai on the other.

Contacts: Telesystems: Canada, 416 441 9966. ChaseCom: UK, 071 281 4455. Dow Corning: West Germany, 89 14861. Pera: UK, [illegible]. Sky Computers: US, 508 250 1920. MSS: UK, 0494 441861. Rhone-Poulenc: UK, 0277 262127. Shemex: Netherlands, 029 7748486. Inscape: UK, 071 436 [illegible].

COMMODITIES AND AGRICULTURE

Opec production target remains elusive

By Steven Butler in Geneva

THIRTEEN oil ministers in Geneva were last night making every effort to wind up what they hoped would be one of the shortest meetings on record for the Organisation of Petroleum Exporting Countries.

Prospects for achieving this elusive goal, however, were in danger of slipping away. The tendency which journalists, who spend days and nights in hotel lobbies, fondly refer to as Opec time reared its head again as the meeting was postponed, because the ministers could not agree on a formula for cutting back production of oil.

Oil markets none the less took kindly to the remarks made by some ministers that the meeting was expected to adjourn properly before the night was out. North Sea Brent oil for June delivery finished European trading at $17.425, up 0.10 on the day.

The Opec ministers are trying to patch together a formula that would reduce Opec production by 1m or more barrels a day for the next two months in order to shore up sagging prices.

They will meet again in June for an agreement covering the second half of the year. The Opec secretariat now believes that demand for Opec crude oil will average 22.52m b/d this year.

This compares with current production of about 23.5m b/d. Some Opec ministers are worried that unless a credible agreement is reached to cut sharply output, oil stocks will remain at high levels and threaten any potential recovery in prices. Delegates to the meeting said that a number of proposals are under discussions.

Although all Opec ministers appear united on the need to drain oil out of the world supply system, agreement on who is to cut production by how much, and how it is to be presented is more difficult.

Countries which are overproducing, such as Kuwait, appear to want sacrifices all around, even from countries producing under their quota. This is on the rationale that quotas do not realistically reflect current production capacity in Opec countries.

Nervous trading in a market held in limbo

Steven Butler on legal changes which have meant confusion for Brent crude dealers

THE forward market for North Sea Brent crude has entered limbo. Traders have closed out positions and held trading to a minimum.

They are waiting for the legal and regulatory authorities on both sides of the Atlantic to attempt to sort out what has now become an exceptionally confused situation.

It was two years ago that the US court gave a preliminary opinion that the market in which British-produced oil is bought, sold, and delivered – mainly in Europe – was a US futures market.

The position appeared so absurd to traders that they assumed it would soon be overturned and afforded it only passing notice.

When instead, this was confirmed on April 18, the market went into shock. Some big traders, including Shell, cut off all contact with American traders.

Others held their transactions trades to a minimum, while US participants in the market began moving their operations offshore. Exxon, on the advice of lawyers, quit the market altogether.

Exxon said yesterday the decision could affect its participation in to the forward markets such as Russian gas oil or heavy fuel oil.

Their fear is not just that traders may be in violation of US law, under which off-exchange futures transactions are illegal. It is also that traders on the losing end of a deal might abrogate contracts, cry foul, and seek redress in the US courts.

This is not very different from what happened in the case of Transnor, the small Bermuda-registered trading corporation, which provoked the current turmoil by seeking damages from BP, Connoco, Exxon, and Shell in US courts. (Shell and BP settled out of court.)

The movement of trading out of the US appears to reflect confidence among traders that eventually the long arm of the US law will not be able to grab non-US persons, as the law calls them, trading with each other offshore.

North Cormorant platform in the Brent Oil Field

Even this, however, is inconsistent with Judge Connor's ruling, that a market having even the slightest impact on US commerce was not entirely a foreign market and was therefore a US market. This concept could potentially encompass far more than just the Brent market, and include everything from the Tokyo Stock Exchange to a Middle Eastern rug bazaar.

Do the US courts really want all this extra business?

An initial announcement by the US Commodity Futures Trading Commission, which said it was looking for ways to keep the market open to US traders, implicitly recognised that even the CFTC could not control traders everywhere. It might try to keep the market open to US companies by taking a 'no action' ruling, that is, agreeing to let matters be.

Even this action, however, may end up giving sanction only to traders who use the underlying physical commodity, which in itself would severely cut liquidity in the market for no apparent good purpose.

The British Government objected loudly on Tuesday, when it complained to the CFTC that the US court decision was against international law and damaged the British national interest.

But even the British Government could only object legitimately to the extra-territoriality implied in the Judge Connor's decision. US law will always, obviously, apply to US traders dealing from the US.

The market is being kept alive because traders are betting, rather cautiously, that the British position at least will prevail and the market will carry on more or less as before, perhaps with less direct US participation.

The current shape of the Brent forward market traces its origins to the early 1980s, when oil producers were required by the UK Government to pay tax on their oil production on the basis of market-determined prices.

This led to the practice of 'tax spinning.' By this method, an oil company would sell a contract to deliver oil into the market.

This contract would pass through many hands and frequently end up back with the original company, completing what the market called a daisy chain. Positions would be cancelled out, losses and gains paid up, and the oil company was able to pay tax based on the lowest price paid for an individual cargo while it shipped the oil off to its refinery.

The system was subsequently changed so that tax was paid based on what the company could actually get for the oil. The basis for the Transnor suit, however, was that it accused other oil companies of manipulating the price down in order to lower the UK tax burden.

The case, if proved, could potentially result in huge liabilities for the companies involved, although this is still theoretical until evidence begins to be heard on May 21.

Meanwhile, it is the successful establishment of jurisdiction in the case that has shaken the market.

A loss of liquidity in the Brent forward market will have no direct impact on oil production, nor indeed on the level of oil prices per se. But it does gum up considerably the efficiency of the process through which prices are determined for a large quantity of the world's traded oil.

Brent is the benchmark North Sea crude, the most widely traded of any international crude. Although liquidity in the trading of West Texas Intermediate crude in the US is greater, particularly through futures trading at the New York Mercantile Exchange, WTI is not exported and prices can reflect local distortions.

Dubai is a reasonable marker for Middle Eastern heavy, sour, or high sulphur crudes, but its production stream is smaller, and it is a poor indicator of prices of light, sweet crudes, such as Brent.

For this reason an efficiently produced price for Brent makes for an excellent reference for most crudes traded in the Atlantic basin.

The forward market itself, which is threatened by the US court decision, was a key to that efficiency. Traders took paper positions buying and selling in forward months 600,000 barrel cargoes of oil. Although they had a contractual liability to take or accept delivery, most positions were cancelled out before this happened.

Through this, liquidity increased to a point where a real market-determined price was achieved, with all the theoretical and practical economic benefits that this implied.

It is not just a few trading houses and cash-rich oil companies who are threatened by problems in the market. Also at risk is a growing and increasingly sophisticated system of hedging exposure to energy prices. This practice had injected an element of stability for many energy users at a time when prices remain extremely volatile.

The Brent market has had its ups and downs over the years, with traders occasionally going bust and defaulting on obligations. There are occasional squeezes in prompt months, with single traders cornering the market, although squeezes are not necessarily more serious than those occurring on organised futures exchanges.

The UK Securities and Investments Board has seen fit to live with a light-handed regulatory system, a code of conduct that will remain so long as the market is confined to professional traders who abide by the code. Professionals, it reasons, understand the market and can live with the risks without Big Brother protecting them.

It may be possible to organise a different sort of market that achieves the same sorts of efficiencies, although no one knows quite how this would be done, or indeed, why it would be necessary.

It is difficult to imagine what advantage the US would achieve by fixing its laws and regulatory system so that US companies cannot participate in the Brent market.

This is the underlying reason for optimism among traders that the current storm in the market will eventually blow over. Brent crude, in spite of production hiccups this year, will be supplying 30 to 40 cargoes of oil a month for some years to come.

When, as is likely later this year, the Brent and Ninian crude streams are combined, liquidity will rise still higher, increasing the efficiency of the market and extending the life of Brent as an international marker.

The oil will be produced. It must be sold at arms length at a market-determined price. A US judge may succeed in denying US companies the advantages that participation in such a market bring. Is it conceivable he could deny this to the rest of the world?

Sucden says it is content with 60% sugar share

By William Dawkins in Paris

SUCRES ET DENREES (Sucden), the French commodity trader which controls 60 per cent of the world's freely traded sugar, has no wish to increase its market share, according to Mr Jacques Bachelier, the group's managing director.

"We have a very considerable part of the world market. It is not necessary to go any further. Our policy now is to diversify into other trading activities and into agri-food businesses at the same time," said Mr Bachelier, in a rare interview.

This clarification of Sucden's strategy is significant, given the group's reputation for surprising the market with sudden large commodity purchases.

The group has released details of its acquisition of a controlling stake in Chile's near-monopoly sugar processor, Industria Azucarera Nacional de Chile (Iansa), which had sales of dollars 270m last year.

Sucden is also one of the world's largest cocoa traders and late last year launched an ambitious diversification into the oil market by buying 10 per cent of Iran's crude output over the next 18 months, the largest ever private contract for Iranian crude. The French group's turnover rose to around FFr50bn ($8.4bn) last year, from FFr32.5bn in 1986, said Mr Bachelier.

Sucden's motive behind the Chilean deal is to buy exposure to a food processing and agriculture related business in Latin America and "has nothing to do with sugar trading," said Mr Bachelier. It has built up a 30 per cent stake in Iansa, in partnership with Knok Group, the diversified Hong Kong based commodity business which three years ago took a 30 per cent interest in Sucden's sugar trading arm.

Iansa's five factories also make animal and fish feed and apple pulp.

While Mr Bachelier has no plans to scale down Iansa's sugar processing activities, he plans to build up production of foods with sugar content, possibly fruit juice and jams.

No price is being revealed, but Iansa has a stock market capitalisation of dollars 400m, Chile's second largest. Its profits rose by 60 per cent to dollars 60m last year, when it produced 410,000 tonnes of beet sugar, 85 per cent of Chilean consumption.

The stake in Iansa is held by a joint company, 70 per cent owned by Sucden and 30 per cent held by Knok, and which holds four of Chilean company's seven board seats.

Australia's stock of unsold wool is likely to triple

By Kevin Brown in Sydney

AUSTRALIA'S stockpile of unsold wool could triple from 2.4m bales to more than 7m bales (1587.6m kilos) within the next three years, a senior official of the Australian Wool Corporation said yesterday.

Mr Andrew Becher, the corporation's manager for New South Wales and Queensland, also said that a levy on wool producers which principally finances stockpiling may have to rise from 8 per cent to 25 per cent at the start of the next financial year in July.

The Australian Wool Council, which will determine the size of next year's levy in June, had been thought to be considering an increase to 15 per cent. However, Mr Becher's comments, in an interview with the Financial Times, indicate that the rise may be greater than expected.

The increase is required to finance the buying in and warehousing of wool which cannot be sold above a floor price of A$8.70 per clean kilo. Around 3 per cent of the existing levy is used to finance promotional and research spending.

The Australian stockpile is increasing because producers have been slow to respond to a fall in prices since mid-1988, when the average price peaked at A$12.69 per kilo. The present average price, including higher priced premium wools, is A$8.90.

The price fall was caused largely by the withdrawal from China, which was a leading purchaser of Australian woollen the three years to 1988.

Mr Becher said that a significant rise in the levy could have a severe impact on producers.

Coarse grain deficit is forecast by IWC

By Bridget Bloom, Agriculture Correspondent

THIS YEAR, world consumption of coarse grains could outstrip production for the fourth consecutive year, reducing stocks to their lowest level since the mid 1980s, the International Wheat Council believes.

In its latest monthly report, IWC says that world consumption of coarse grains, led by maize, is projected at 838m tonnes this year, only slightly higher than in 1989-90. Production is forecast at 821m tonnes in 1990.

However, aggregate carryover of stocks is expected to decline to 121m tonnes by the end of 1989-90 (June-July), well down from the 1986-87 record of 234m tonnes and the lowest since 1983-4.

Higher than anticipated demand for maize in the US and elsewhere has sent prices rising in recent months to the point where the substantial gap between coarse grains and wheat that developed in 1988-89 has begun to narrow. Prices for new crop wheat, at around $130, have descended to the level of maize, IWC reports.

The increase in demand for coarse grains is partly attributable to the revival in their use for animal feed in the US.

Japan diamond jewellery market to overtake US

By Kenneth Gooding, Mining Correspondent

JAPAN IS likely to overtake the US this year as the world's largest retail diamond jewellery market, according to De Beers, the South African group which controls 80 per cent of world trade in uncut diamonds.

In the first two months of 1990 sales in Japan jumped by 18 per cent following a 12 per cent increase last year while those in the US remained flat after a 2 per cent rise in 1989.

According to De Beers, world diamond jewellery retail sales last year grew by 4 per cent to US$39bn, involving 54m pieces and a total of 14.7bn carats.

Mr Julian Ogilvie Thompson, the group's chairman, said that he expected this year's sales to show the same sort of growth. "Demand for diamond jewellery is continuing to grow both at the rate and in a regional pattern similar to that of last year, and the mood in the cutting centres as well as the retail trade generally is positive."

He said De Beers' 5.5 per cent average price increase in March had been "readily absorbed" because it impacted mainly on those diamonds currently in strong demand.

WORLD COMMODITIES PRICES

MARKET REPORT

COPPER prices were easier on the LME yesterday amid signs that the technical tightness around the May/June period may be easing. Sentiment was undermined by the Peruvian government's order for workers at Southern Peru Copper to go back to work today or be sacked, dealers said. There was also talk that call options had been declared during the morning at strike prices as high as $2,950 a tonne indicating that holders believed cash material would rise in price significantly before the May 16 option delivery date. Comex prices were sliding at midsession. London robusta coffee futures eased, depressed by news that Brazil had asked for a postponement of International Coffee Organisation executive board talks set for May 15 and 16 in London. "The news was a little bit negative," said one trader. "But nothing much was expected from the meeting anyway." Chicago pork belly prices surged at the opening on continuing bullish fundamentals. Bellies moving into storage last week were markedly fewer than analysts' estimates. The CME storage report showed an inflow of 42,000 lbs last week compared with 2.85m lbs a year ago.

Compiled from Reuters

London Markets

SPOT MARKETS		+ or -
Crude oil (per barrel FOB)		
Dubai	$14.85-5.00x	+.040
Brent Blend	$17.40-7.45x	+.100
W.T.I. (1 pm est)	$18.94-8.99x	+.145
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$219-221	+3
Gas Oil	$163-164	+1
Heavy Fuel Oil	$83-85	$+\frac{1}{2}$
Naphtha	$160-162	+2
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$370.25	+2.00
Silver (per troy oz)♣	501c	+2
Platinum (per troy oz)	$477.00	+1.00
Palladium (per troy oz)	$118.60	+0.10
Aluminium (free market)	$1500	-5.00
Copper (US Producer)	125.5c	+2.50
Lead (US Producer)	43c	
Nickel (free market)	435c	+10.0
Tin (Kuala Lumpur market)	17.11r	+0.13
Tin (New York)	300c	
Zinc (US Prime Western)	87.00c	+1.00
Cattle (live weight)†	109.22p	-2.04*
Sheep (dead weight)†	217.20p	+1.11*
Pigs (live weight)†	98.30p	-3.41*
London daily sugar (raw)	$378.8t	-1.00
London daily sugar (white)	$461.4t	+0.40
Tate and Lyle export price	£347.00	-1.00
Barley (English feed)	£120.5	+12.5
Maize (US No. 3 yellow)	£142t	+2.00
Wheat (US Dark Northern)	£118.25y	
Rubber (Jun)♥	56.75p	-0.50
Rubber (Jul)♥	57.25p	-0.50
Rubber (KL RSS No 1 May)	230.5m	+1.00
Coconut oil (Philippines)§	$365.0v	-5.00
Palm Oil (Malaysian)§	$262.5y	-2.50
Copra (Philippines)§	$235y	+10.0
Soyabeans (US)	£171u	-1.00
Cotton "A" index	83.75c	-0.05
Wooltops (64s Super)	562p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. x-Jun. t-May/Jun. u-Apr/Aug. v-May/Jul. w-Apr/May. z-Jun/Jul y-May. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX			($ per tonne)	
Raw	Close	Previous	High/Low	
Aug	364.20	366.00	368.60	364.20
Oct	350.60	350.00	355.80	353.00
Dec	339.00	340.00	339.00	339.00
Mar	329.00	329.00	329.00	328.00
May	327.00	331.00	327.00	327.00
Aug	325.00	326.00	325.00	323.00
White	Close	Previous	High/Low	
Aug	452.5	454.0	455.0	450.5
Oct	415.0	416.0	414.5	411.0
Dec	404.0	406.0	404.0	403.5
Mar	395.0	400.0	402.4	398.0

Turnover: Raw 4338 (4385) lots of 50 tonnes. White 1382 (1003). Paris-White (FFr per tonne): Aug 2551, Oct 2326, Dec 2330, Mar 2323, May 2329

CRUDE OIL – IPE				$/barrel
	Close	Previous	High/Low	
Jun	17.20	17.23	17.50	17.15
Jul	17.59	17.75	17.89	17.57
Aug	17.99	18.00	18.13	17.88
IPE Index	17.21	17.22	17.21	

Turnover: 12578 (9012)

GAS OIL – IPE				$/tonne
	Close	Previous	High/Low	
May	158.25	160.25	161.00	158.00
Jun	155.00	156.50	157.25	155.00
Jul	154.25	155.50	157.00	154.25
Aug	155.75	158.00	158.50	155.50
Sep	158.25	158.50	160.75	158.25
Oct	162.00	160.50	160.00	160.50
Nov	161.75	161.50	164.00	161.75
Dec	163.50	164.50	165.00	162.50
Jan	162.75	163.00	163.75	157.50

Turnover 6390 (2422) lots of 100 tonnes

WOOL

The wool market world-wide is quiet. This is due to the sales recess in Australia. There is also some caution related to the AWC's floor price announcement scheduled for the end of June. No reduction is as yet indicated. Over-supply applies in practically all markets. Problems with Soviet payments for Australian wool, coupled with no sign of greater Chinese interest, enhance imbalance from the demand side.

COCOA – London FOX				£/tonne
	Close	Previous	High/Low	
May	848	865	865	841
Jul	862	875	884	858
Sep	877	890	901	875
Dec	896	906	916	893
Mar	913	924	930	910
May	925	930	940	935
Jul	939	959	946	941

Turnover: 3912 (4030) lots of 10 tonnes

ICCO indicator prices (SDRs per tonne). Daily price for May 1 1054.71 (1028.91) 10 day average for May 2 1043.33 (1041.58)

COFFEE – London FOX				£/tonne
	Close	Previous	High/Low	
May	642	654	646	637
Jul	657	669	662	655
Sep	666	680	670	665
Nov	677	690	683	675
Jan	690	704	696	690
Mar	702	720	706	704
May	716	735	726	716

Turnover: 5851 (2899) lots of 5 tonnes

ICO indicator prices (US cents per pound) for May 1: Comp. daily 72.59 (73.27). 15 day average 75.14 (75.38)

POTATOES – BFE				£/tonne
	Close	Previous	High/Low	
May	244.9	235.0	250.0	230.0
Nov	131.0	127.5	132.0	129.0
Apr	199.5	188.0	199.8	193.5

Turnover 333 (398) lots of 40 tonnes.

SOYABEAN MEAL – BFE				£/tonne
	Close	Previous	High/Low	
Aug	129.00	130.50	130.00	128.00
Oct	135.50	135.50	135.50	

Turnover 16 (36) lots of 20 tonnes.

FREIGHT FUTURES – BFE				$10/index point
	Close	Previous	High/Low	
May	12.88	12.75	12.90	12.88
Jul	11.11	11.05	11.15	11.00
Oct	12.05	12.00	12.14	12.01
Apr	12.43	12.40	12.43	12.40
BFI	13.52	13.55		

Turnover 65 (322)

GRAINS – BFE				£/tonne
Wheat	Close	Previous	High/Low	
May	117.90	118.50	118.25	116.85
Jun	119.60	118.50	119.75	118.90
Sep	113.65	113.15	113.65	113.15
Nov	116.75	116.25	116.80	116.60
Jan	120.10	119.60	120.20	119.85
Mar	123.40	123.00	123.50	123.50
May	126.40	126.00	126.60	
Barley	Close	Previous	High/Low	
May	104.00	103.60	104.00	
Sep	111.90	111.60	111.90	
Nov	115.70	115.60	115.80	115.70
May	122.85	122.50	122.85	

Turnover: Wheat 487 (319). Barley 103 (549). Turnover lots of 100 tonnes.

PIGS – BFE			(Cash Settlement) p/kg
	Close	Previous	High/Low
Jun	126.5	127.5	126.5
Aug	120.5	121.0	120.0
Oct	121.5	122.0	121.0

Turnover 18 (75) lots of 3,250 kg

LONDON METAL EXCHANGE				(Prices supplied by Amalgamated Metal Trading)		
	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 44,041 tonne
Cash	1487-9	1514-6	1498	1487-8		
3 months	1516-7	1532-3	1529/1512	1517-8	1518-4	7,776 lots
Copper, Grade A (£ per tonne)						Ring turnover 78,405 tonne
Cash	1695-700	1735-60	1707/1695	1706-7		
3 months	1539-40	1559-60	1550/1525	1540-5	1537-8	49,375 lots
Lead (£ per tonne)						Ring turnover 10,161 tonne
Cash	495-8	498-4	498/492	497-8		
3 months	489-9	489-5	490/486	489-90	486-7	5,925 lots
Nickel ($ per tonne)						Ring turnover 7,338 tonne
Cash	9350-400	9550-650	9500	9475-500		
3 months	8800-50	8850-950	8950/8825	8900-50	8850-75	1,342 lots
Tin ($ per tonne)						Ring turnover 5,174 tonne
Cash	6430-50	6440-75	6490/6450	6480-5		
3 months	6540-50	6550-60	6600/6540	6575-85	6580-90	1,320 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 17,871 tonne
Cash	1750-5	1770-5	1750/1746	1750-2		
3 months	1683-4	1698-700	1700/1675	1678-80	1678-82	10,550 lots

LME Closing £/$ rate: SPOT: 1.6415 3 months: 1.6148 6 months: 1.5953 9 months: 1.5846

LONDON BULLION MARKET		
Gold (fine oz) $ price		£ equivalent
Close	370-370$\frac{1}{2}$	225$\frac{1}{4}$-225$\frac{3}{4}$
Opening	368$\frac{1}{4}$-369$\frac{1}{4}$	224$\frac{1}{2}$-225
Morning fix	370.50	225.708
Afternoon fix	369.80	225.167
Day's high	371-371$\frac{1}{2}$	
Day's low	368$\frac{1}{2}$-369	

Coins	$ price	£ equivalent
Maple leaf	380-385	231$\frac{1}{2}$-234$\frac{1}{2}$
Britannia	380-385	231$\frac{1}{2}$-234$\frac{1}{2}$
US Eagle	380-385	231$\frac{1}{2}$-234$\frac{1}{2}$
Angel	380-385	231$\frac{1}{2}$-234$\frac{1}{2}$
Krugerrand	368-371	224-226
New Sov.	87-89	53-54$\frac{1}{2}$
Old Sov.	87-89	53-54$\frac{1}{2}$
Noble Plat	482.70-490.35	294.40-299.10

Silver fix	p/fine oz	US cts equiv
Spot	304.65	499.50
3 months	316.65	510.80
6 months	326.60	521.95
12 months	355.00	546.05

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	July	Sep	July	Sep
1400	123	141	16	22
1500	55	73	41	56
1600	19	38	102	112
Copper (Grade A)	Calls		Puts	
2350	201	182	47	85
2450	139	112	88	132
2550	91	74	133	181
Coffee	Jul	Sep	Jul	Sep
600	65	65	5	20
650	34	55	27	40
700	15	34	58	68
Cocoa	Jul	Sep	Jul	Sep
800	75	26	14	102
850	43	67	32	41
900	23	43	62	67
Brent Crude	Jun	Jul	Jun	Jul
1700				
1750	18			
1800	4			

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
May	369.5	370.0	0	0
Jun	372.0	372.7	372.9	371.1
Jul	374.4	375.1	0	0
Aug	376.9	377.8	377.8	376.2
Oct	382.1	382.8	382.0	382.0
Dec	387.0	387.7	388.0	386.3
Feb	392.2	392.9	391.5	391.5
Apr	397.1	397.8	0	0
Jun	402.4	403.1	402.5	401.5

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jul	480.5	479.7	481.5	478.0
Oct	487.0	486.2	488.0	485.5
Jan	493.4	493.0	492.0	491.0
Apr	499.7	499.2	0	0
Jul	505.9	505.4	0	0
Jul	495.4	512.0	0	0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
May	498.8	501.3	500.5	497.0
Jun	502.5	505.5	0	0
Jul	505.5	509.3	509.0	505.5
Sep	518.3	518.3	517.0	514.0
Dec	527.4	530.4	529.0	528.5
Jan	531.3	534.3	0	0
Mar	539.3	542.3	539.0	539.0
May	547.7	550.7	548.0	548.0
Jul	559.2	559.2	557.5	557.0
Sep	565.2	568.2	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
May	121.30	122.10	121.80	119.90
Jun	116.70	117.30	116.70	116.70
Jul	112.15	113.30	112.90	110.90
Aug	109.60	110.60	109.60	109.60
Sep	108.20	109.50	108.40	107.30
Oct	107.05	108.45	0	0
Nov	105.95	107.35	0	0
Dec	104.80	106.10	105.00	104.30
Jan	103.50	105.00	0	0
Mar	101.60	103.10	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Close	Previous	High/Low	
Jun	18.72	18.61	19.10	18.61
Jul	19.37	19.52	19.74	19.28
Aug	19.77	19.90	20.07	19.70
Sep	20.02	20.17	20.32	20.01
Oct	20.24	20.38	20.50	20.22
Nov	20.36	20.36	20.50	20.25
Dec	20.27	20.35	20.51	20.25
Jan	20.28	20.33	20.48	20.25
Feb	20.44	20.32	20.45	20.40
Mar	20.40	20.31	20.48	20.40

HEATING OIL 42,000 US galls, cents/US galls				
	Close	Previous	High/Low	
Jun	5190	5297	5380	5175
Jul	5185	5258	5380	5170
Aug	5270	5339	5395	5270
Sep	5420	5477	5530	5420
Oct	5520	5582	5605	5520
Nov	5615	5647	5665	5615
Dec	5665	5732	5810	5665
Jan	5795	5762	5800	5735
Feb	5670	5707	5750	5670
Mar	5570	5582	5570	5545

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
May	1288	1300	1300	1282
Jul	1301	1324	1322	1291
Sep	1319	1340	1348	1308
Dec	1341	1365	1370	1330
Mar	1354	1373	1380	1366
May	1365	1385	0	0
Jul	1388	1401	0	0

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
May	90.50	92.00	91.45	90.40
Jul	92.34	92.82	92.85	91.75
Sep	94.45	94.73	94.60	93.65
Dec	96.70	96.95	96.75	96.00
Mar	98.89	99.13	98.75	98.10
May	101.13	101.00	100.60	0
Jul	103.75	103.00	0	0
Sep	103.75	105.13	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	15.90	15.98	16.04	15.78
Oct	15.75	15.88	15.89	15.67
Mar	14.93	15.02	15.08	14.88
Jul	14.61	14.75	14.65	14.60
Oct	15.75	15.86	15.80	15.67

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
May	74.10	73.60	74.35	73.40
Jul	74.80	74.20	74.90	74.25
Oct	70.35	69.55	70.35	69.60
Dec	67.71	67.23	67.98	67.35
Mar	68.50	68.05	68.60	68.30
May	68.95	68.43	68.90	68.40
Jul	69.00	68.38	68.90	68.90

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
May	193.00	194.25	195.10	193.00
Jul	191.50	192.60	193.40	190.80
Sep	186.10	187.00	187.50	185.85
Nov	179.60	180.25	180.00	179.60
Jan	175.00	175.50	175.00	175.00

INDICES

REUTERS (Base: September 18 1931 = 100)			
May 2	May 1	mnth ago	yr ago
1937.4	1935.8	1923.2	2005.7

DOW JONES (Base: Dec. 31 1974 = 100)				
	May 1	Apr 30	mnth ago	yr ago
Spot	134.15	133.73	133.23	137.06
Futures	133.40	132.92	133.52	137.01

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
May	636/4	627/4	638/0	628/0
Jul	651/6	643/4	653/0	640/0
Aug	657/2	649/2	658/4	648/4
Sep	657/6	648/4	658/0	647/0
Nov	662/2	655/0	663/0	652/0
Jan	673/0	665/6	673/4	662/4
Mar	683/0	675/2	683/0	673/4
May	691/0	684/4	691/0	679/0

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
May	23.48	22.87	23.45	22.90
Jul	23.59	22.98	23.61	23.03
Aug	23.55	22.95	23.58	23.05
Sep	23.57	22.86	23.40	23.00
Oct	23.05	22.66	23.18	22.70
Dec	22.92	22.52	23.00	22.60
Jan	22.61	22.37	22.83	22.50
Mar	22.65	22.40	22.65	22.40

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
May	185.7	185.5	185.8	181.8
Jul	190.3	190.1	190.5	186.6
Aug	192.1	192.0	192.5	188.7
Sep	193.9	194.0	194.2	191.2
Oct	195.5	195.2	195.5	192.5
Dec	199.1	198.9	199.2	196.0
Jan	200.0	200.2	200.5	0
Mar	204.0	204.0	204.0	201.0
May	204.5	204.5	204.5	202.0

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
May	287/6	283/6	289/0	282/6
Jul	289/0	284/6	289/0	283/6
Sep	280/2	276/2	280/4	275/6
Dec	273/2	270/2	274/0	269/4
Mar	278/2	275/0	279/6	274/2
May	280/0	277/2	281/0	277/4
Jul	282/4	280/0	282/4	279/4

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
May	373/4	367/4	373/6	366/4
Jul	347/4	341/6	348/0	344/0
Sep	353/0	348/0	353/6	349/4
Dec	365/6	360/6	366/0	362/0
Mar	371/4	366/4	371/4	367/4

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jun	73.60	73.22	73.85	73.25
Aug	72.02	71.92	72.45	71.75
Oct	74.12	73.85	74.27	73.75
Dec	74.85	74.60	74.90	74.50
Feb	75.05	74.67	75.10	74.65
Apr	75.72	75.37	75.80	75.37
Jun	74.50	74.35	74.60	74.25

LIVE HOGS 30,000 lb; cents/lbs				
	Close	Previous	High/Low	
Jun	63.87	63.85	64.35	63.40
Jul	62.80	62.80	63.40	62.25
Aug	60.95	60.95	61.30	60.35
Oct	53.82	53.22	53.90	53.05
Dec	53.00	52.57	53.45	52.40
Feb	51.45	51.07	51.90	50.95
Apr	48.60	48.30	48.70	48.30
Jun	51.30	51.10	51.65	51.15

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
May	69.77	68.65	70.65	68.80
Jul	69.46	68.85	70.83	68.50
Aug	67.32	66.75	68.75	66.25
Feb	59.57	59.67	60.67	59.05
Mar	59.20	59.50	59.70	59.20
May	59.40	59.70	0	59.40

LONDON STOCK EXCHANGE

Futures demand supports share rally

THE FUTURES market again came to the help of UK stocks yesterday and share prices made further progress despite the shadow ahead of today's voting in the British local elections. Trading volume showed some improvement and the market was more than 27 FT-SE points ahead until buyers backed away as Wall Street opened cautiously and the premium on the Footsie futures narrowed.

The mood remained somewhat uncertain, with market strategists questioning whether the low point of the present cycle has been reached. A firmer performance from the banking sector, helped by a satisfactory interim report from Royal Bank of Scotland, provided a base for the rest of the equity market.

Account Dealing Dates		
*First Dealings:		
Apr 9	Apr 30	May 14
Option Declarations:		
Apr 26	May 10	May 24
Last Dealings:		
Apr 27	May 11	May 25
Account Day:		
May 8	May 21	Jun 4

*New time dealings may take place from 9.00 am two business days earlier

But the corporate sector continued to deliver shocks to the market's confidence: Johnson Matthey, the special metals refiner, disclosed a cost-cutting and streamlining programme, and shareholders of General Accident were warned of the costs of this winter's stormy weather.

At the close, the FT-SE Index was 19.7 up at 2,137.6 on Seaq volume of 433m shares, against 370.8m in the previous session. Equity trading was very selective, however, with such leading stocks as ICI, which led equities ahead earlier in the week, recording turnover of only 626m shares and Rank Organisation only 850,000.

Most of the reasons put forward to justify yesterday's uptick appeared to rest on technical arguments, the burden of them being that the market was "due for a rally," or "looking oversold." But Stock Exchange detailed statistics for last week disclosed that equity trading increased, albeit moderately, to £1bn on Thursday and £892.4m on Friday. In the face of such selling, marketmakers were marking prices down sharply at the end of the week and the institutions may now be picking up stock.

Fairly heavy buying of the FT-SE June futures contract has been seen over the past two days, including one buyer of 2,500 contracts yesterday.

But equity traders are poised to face bad news for the ruling Conservative Party from the UK local elections when the market opens tomorrow morning. In recent months, the poor showing by the Conservatives in opinion polls has been seen as discouraging for non-UK investors. However, the shakeout in equities last week may represent a discounting of the election results, or even of the domestic inflation statistics due next week.

UBS Phillips & Drew, in its latest UK economic review, maintained that 1991 would see "a substantial improvement," although it expected domestic average headline inflation this year to exceed 8 per cent and base rates to stick at 15 per cent.

FINANCIAL TIMES STOCK INDICES

	May 2	May 1	April 30	April 27	April 26	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	74.27	74.01	74.13	74.32	74.61	86.64	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	84.59	84.37	83.80	84.72	84.46	97.50	92.91 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1678.0	1663.5	1653.6	1658.7	1678.1	1744.5	1968.3 (3/1)	1653.8 (30/4)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	219.5	219.0	221.5	221.8	218.2	173.0	378.5 (6/2)	218.2 (26/4)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2137.5	2117.9	2103.4	2106.6	2133.8	2105.7	2463.7 (3/1)	2103.4 (30/4)	2463.7 (3/1/90)	986.9 (23/7/84)
Ord. Div. Yield	5.41	5.44	5.48	5.47	5.41	4.47				
Earning Yld %(full)	12.11	12.16	12.29	12.28	12.12	10.88				
P/E Ratio(Net)(*)	9.97	9.93	9.87	9.88	9.99	11.11				
SEAQ Bargns 4.45pm	20,174	19,615	21,821	26,053	21,449	24,881				
Equity Turnover(£m)†	-	622.90	607.88	892.44	962.96	871.65				
Equity Bargains†	-	19,439	21,694	25,556	21,449	28,795				
Shares Traded (ml)†	-	322.8	282.0	450.1	444.2	391.2				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. * Nil 9.87

Ordinary Share Index, Hourly changes Day's High 1684.2 Day's Low 1666.6

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1666.6	1673.6	1673.2	1677.0	1679.4	1680.9	1683.4	1683.5	1679.5

FT-SE, Hourly changes Day's High 2145.1 Day's Low 2121.7

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2121.7	2133.1	2132.3	2137.0	2139.6	2141.6	2145.1	2143.6	2139.5

GILT EDGED ACTIVITY

Indices*	May 1	April 30
Gilt Edged Bargains	75.4	88.7
5-Day average	77.8	74.6

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request.
London report and latest Share Index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change
ADT	2,500	172	-½	Cookson	829	194	+4	MB Group	[illegible]	190	-2	Siebe	214	459	+2
ASDA Group	2,100	85	+3	Courtaulds	2,700	296	+6	MEPC	85	498		Slough Ests	73	278	+1
Abbey National	1,600	[illegible]	+4	Dalgety	18	360		Manpower	321	80	+2	Smith (W.H.) A	332	293	-2
Allied-Lyons	747	424	+2½	Dixons	462	120	-2	Marks & Spencer	3,900	[illegible]	+3	[illegible]	1,000	120¼	+1½
Amstrad	613	68	+½	ECC Group	289	355	+4	Maxwell Comm.	478	179		SmKl Beecham	2,700	471	+4
Anglian Water	927	154	+4	Enterprise Oil	839	583	+18	Mecca Leisure	1,000	88½	+½	SmKl Beecham Units	33	2153	+8
Argos	3,600	194	+½	FKI	2,500	70	+3	Midland Bank	1,000	284	+4	Smiths Inds.	1,050	249	+8
Argyll Group	1,600	210	+2½	Ferranti	3,100	41½	-1	NatWest Bank	2,000	320	+11	South West Water	611	144	+3
[illegible]	640	385	-2	Fisons	2,000	324	-3	Next	741	62	-1	Southern Water	387	135	+5
BAA	1,000	382	+2	Gen. Accident	174	1013	+5	North West Water	507	143	+3½	Standard Chartd.	738	487	-3
BAT Inds.	[illegible]	691	-8	General Elect.	3,800	197½	-1½	Northern Foods	541	285	-3	Storehouse	2,300	100	-½
BET	614	211	+1	Glaxo	2,000	787	+8	Northumbrian Water	388	147	+1	Sun Alliance	2,008	297	-3
BICC	1,100	408	+4	Globe Inv.	179	166		Pearson	282	674	+13	Sun Life	170	1200	
[illegible]				[illegible]				[illegible]				[illegible]			

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

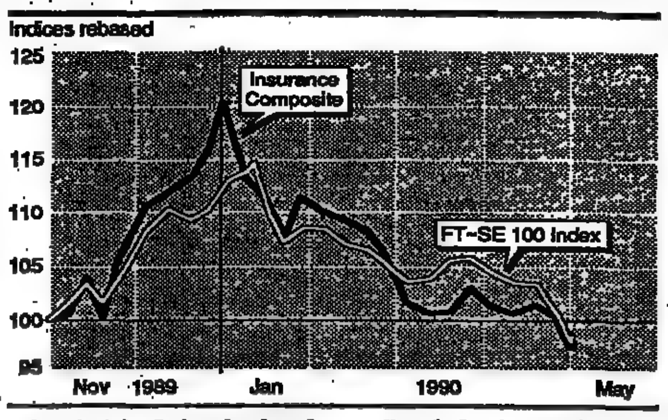
Kwik Save falls on figures

THE INTERIM figures from discount food retailer Kwik Save led to a rapid fall of more than 50p in the shares. Analysts decried the fall as overdone and the share price picked up to close at 470p, still a net decline of 44.

The profit figure of £39.5m was 12 per cent higher than the previous year but below analysts' forecasts. Mr Bill Myers at Henderson Crosthwaite said the shortfall was due to between £3m to £3¼m of one-off costs arising from the integration of the recently acquired Victor Value chain into the company. He cut his full year profits forecast by £3m to £88m.

Ms Kimlan Cooke at Smith New Court trimmed her forecast to £88m from £89m, saying: "We were expecting the Victor costs, and the change in forecast reflects only a marginal shortfall in profit." She suggested the "overdone" share price weakness might have arisen from concern over competition in the UK from the newly arrived West German food retailer Aldi. Another researcher said the "uneasy" analysts' meeting did not help the shares.

Others to lower full year forecasts included Goldman Sachs, down slightly to £85m, and S. G. Warburg, reduced by £3m to £84m.



Brewers weak

One of the worst performers of the day among the FT-SE 100 stocks was Scottish & Newcastle. Dealers and marketmakers were united in identifying the cause of the weakness as the failed placing of a line of at least 3¼m shares. Scottish shares closed 7 down at 290p, on unspectacular turnover of 2.1m.

The decline seemed to drag much of the rest of the sector lower against the market trend. Bass, which had been particularly strong on Tuesday, lost 8 to 934p, while Whitbread "A" eased 3 to 364p. Guinness shed 5 to 684p despite presentations being held by the company this week in the US, and a positive meeting for Canadian whisky group Seagram in London yesterday.

But some analysts pointed out that the brewing and distilling sector had reached an all-time high relative to the market on Tuesday, thus suggesting that technical factors were also at work.

The price of crude oil held firm as Opec talks got off to a quiet start in Switzerland and was reflected in the performance of shares in the sector. Volatile Enterprise added another 18 at 583p. BP hardened 5 to 308p and Shell climbed 7 to 438p. Trading was light. The prospect of a presentation by Shell to brokers and investors, held after the market's close, did the company's shares no harm. Second-line exploration and production companies also did well, with Hardy showing a gain of 6 to 171p, Premier rising 1¼ to 90½ and Goal putting on 2 at 90p.

Caler had a particularly good day, to close 7 better at 255p. Dealers noted a single keen buyer in early dealing, probably part of a small programme trade.

Lasmo, caught up in the good mood, rose 15 at one point, helped by an oil find in British North Sea block 15/24b, where Lasmo has a 40 per cent interest. "A nice little discovery," commented Mr Keith Morris of Kitcat & Aitken.

USM-quoted Tullow Oil was 2¾ down at 18p shortly after announcing a one-for-three rights issue to raise IR£5.85m. The shares had recovered by the close to 18½p.

The market shrugged off a return to profit (£3m against a £2.3m loss) at the year-end from Europa Minerals. The shares shed 10 to 85p as the company revealed plans "for significant expansion in its coal and gold interests in Australia" and said it was considering the acquisition of additional mineral interests in North America.

Banks, unsettled recently by a batch of warnings from the leading names on the implications of the downturn in the UK economy, were cheered by the interim statement from Royal Bank of Scotland. A modest increase in first-half profits helped Royal Bank shares advance by 10 to 168p.

Similar gains were achieved by Barclays Bank (519p) and NatWest (320p), while Midland (284p) and Lloyds (258p) chalked up smaller improvements. Shares in TSB, 6 firmer at 132p, benefited from inclusion in a small buying programme operated by one of the leading investment banks.

Composite insurance stocks (see chart) made only a restrained response to the general improvement in equities.

A discouraging factor was the disclosure at the annual meeting of General Accident that last winter's storm damage could require provisions as high as £90m, and will adversely affect the first-quarter trading figures, due at the end of next week. The GA shares moved ahead to 1023p with the market in early trading, but ended at 1014p, only 6 up on the day.

Also influencing sentiment was the latest survey on the sector by Goldman Sachs, the US investment bank, which echoed views held elsewhere in the market that rates on commercial property insurance appear to be edging higher again, and that there may be opportunities for the UK firms at the US renewal session in July.

Royal Insurance, out of favour recently, rallied by only a few pence to 430p, with Goldman agreeing with recent criticisms of Royal's results in the US, but adding that the company seemed to be building a strong reserve position.

Legal & General (350p) and Guardian Royal Exchange (218p) showed minor gains on the day after modest trading volume. Sun Alliance, down 3 at 297p, reacted to bearish brokerage comment.

Traders in the building issues were slightly more happy about the volume of business yesterday, but the sector again showed a reluctance to participate in the general market recovery. Some leaders drew demand and went forward but others lost ground because sellers had the slight edge. Redland was such a case at 553p, down 5, along with George Wimpey, marginally softer at 218p.

A BZW sell recommendation brought BPB back 3 to 208p. The security house concluded its assessment of the group with "profits still have some way to fall, the recovery is still a long way off and the rating is too high."

Second-line stocks had EBC 7 lower at 124p, after 118p, following the chairman's comments at the annual meeting of "a difficult year ahead." He added: "The outturn of the company's property division will have a significant effect on the company's ability to repeat last year's success." Colroy struck a more cheerful note with a further rally of 10 to 120p. Elsewhere, Heywood Williams rose 6¼ to 242½p.

Turnover in Williams Holdings expanded to 4.5m as the share price advanced but ended below the day's best with a net rise of 9 at 350p after the company announced the sale of its Crown Berger paints business to Swedish group Nobel Industries.

Nobel is to pay £205m immediately, and a further £35m after assessing sales performance.

Speculation that Williams was to sell the company had been going the rounds in the market from time to time, but Mr Geof Allum at County NatWest said: "I do not think they were looking to sell it, but Nobel offered them a good price and they jumped at the chance." Mr Allum believed Williams would use the proceeds of the sale to "load their war chest" for new acquisitions.

A buy note from S. G. Warburg helped Racal Telecom climb 12 to 327p. The broker's electricals team said that recent underperformance reflected US concern over cellular valuations and domestic concern about slowing subscriber growth. It said the former was misplaced when applied to Racal Telecom and the latter was not justified by a more thorough examination of the evidence.

STC continued to benefit from the chairman's statement at Tuesday's annual meeting and firmed another 7 to 250p.

USM-quoted Continental Microwave, telecoms and defence equipment supplier, jumped 85 to 230p after agreeing to a £15.8m cash offer from Pharos Holdings, of Sweden. Continental shareholders will be offered 230p for each ordinary share and 112p for each convertible.

Klark-Teknik, a USM-quoted audio equipment supplier, fell 9 to 60p after saying that talks with regard to a possible offer being made for the company had been terminated.

A return of the recent pressure on Rosehaugh imparted fresh uncertainty to the property sector. The shares briefly touched 230p before rallying to settle at 238p, a loss of 10 on the day.

Traders cited two possible reasons for the weakness of the stock, the first being the recently reported but unconfirmed story of the Bank of England warning the high street banks about their loans to property companies. The second was Canadian speculation that both the wealth and credibility of the Reichmann brothers, who control Olympia & York and last month took an 8 per cent stake in Rosehaugh, were being questioned.

Hoping for good annual results next Wednesday, investors again bought Brent Walker, which rose to 270p before closing 6 up at 265p. Broking house Kitcat & Aitken expected the group to reveal profits of £64m, but the range of market forecasts was fairly wide, beginning at £58m and extending to £72m.

Expedier Leisure announced more than doubled annual profits and gained 3 to 58p. Midsummer Leisure, 4 up at 117p, moved nearer the level, currently around 140p, offered by bidder European Leisure.

Cityvision shares advanced further to end 6 dearer at 103p. The company has acquired Video House, the UK's fifth largest chain of video stores.

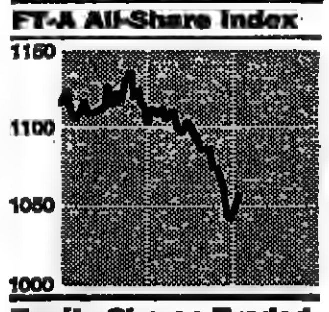
Fairline Boats, the luxury boat builder, lost more than Monday's gain to close 60 down at 730p after the company refuted recent speculation and denied having received a bid approach.

Shares in Johnson Matthey, the precious metals group, tumbled 22 to 225p after the company announced a cost-cutting programme. Analysts were not surprised by the news as the chairman had signalled the change last December. Attention focused on the company's warning that the reorganisation would mean "substantial extraordinary charges in the 1989-90 accounts." The company said that Mr John Sheldrick, currently group treasurer at BOC, is to join Johnson Matthey as finance director later this year.

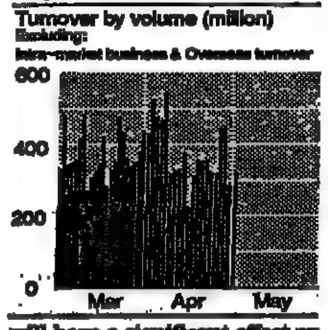
British Steel were in demand as the market waited to hear if the company's £250m bid for Jose Maria Aristrain, the Spanish group, would succeed. "Good general buying" was how one trader described the trade in Rolls-Royce. Turnover, at 8.9m, was again high, although the share price closed at 200p, unchanged on the day, having touched 201p.

■ Other market statistics, including the FT-Actuaries share index, Page 26

FT-A All-Share Index



Equity Shares Traded



NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (7).
BRITISH FUNDS (1) ELECTRICALS (3) INDUSTRIALS (1) Proudfoot, TRUSTS (2).
NEW LOWS (218).
BRITISH FUNDS (21) AMERICANS (4) CANADIANS (1) BANKS (4) BREWERS (4) BUILDINGS (11) CHEMICALS (3) STORES (10) ELECTRICALS (3) ENGINEERING (10) FOODS (6) HOTELS (4) INDUSTRIALS (38) ADT, Allied Part., BSR, Baxter Int., Bridport-Gundry, Cannon St. Inv., Charter Cons., Clearmark, Cosalt, Davis Godfrey, Dean & Bowes, Ozanni (J & J) "A", EBC, Ensor, Expamet Int., Fenner, Flogas, Forwell, Glaves, Halma, Hornby, Hunting, Johnson Matthey, Lincat, London Finance & Inv., Mn. & Allied Supplies, RKF, Reed Executive, St. Securicor "A", Silentnight, Swallowfield, TLS Range, Tamaris, Do. 8½pc Pf., Trafalgar House, INSURANCE (2) LEISURE (7) MOTORS (6) NEWSPAPERS (4) PAPERS (4) PROPERTY (14) TEXTILES (3) TRANSPORT (3) TRUSTS (23) OILS (8) OVERSEAS TRADERS (6) MINES (16) THIRD MARKET (8).

APPOINTMENTS

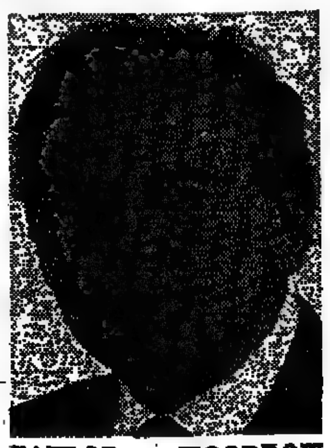
Johnson Matthey finance director

■ Mr John Sheldrick, currently group treasurer of The BOC Group, will join JOHNSON MATTHEY as finance director later this year. Mr Harry Fitzgibbons, managing director of Top Technology and Hambros Advanced Technology Trust; and Mr Charles Parker, commercial director of Charter Consolidated, have been appointed non-executive directors of Johnson Matthey.

■ Mr Brian Phipps, managing director of PARKFIELD DIRECT MARKETING, has taken on the additional managing directorships of Parkfield Advertising, and Sheetfed Printers.

■ TAYLOR YOUNG INVESTMENT MANAGEMENT has appointed Mr Francis T. Baring as a senior investment manager. He was a portfolio manager at Barings Investment Management.

■ ICCH FINANCIAL MARKETS, a subsidiary of International Commodities Clearing House, has appointed Mr Jos Coad as managing director of its new subsidiary ICCH Belgium. This company has been formed to project manage the establishment of the new Belgian Futures and Options Exchange, BELFOX. Mr Coad was executive director, finance and administration.



TAYLOR WOODROW PROPERTY CO has appointed Mr Trevor Thomas (above) to the board.

■ Sir Michael Sandberg joins the board of POLLY PECK INTERNATIONAL as a non-executive director from June 1. He was chairman of the Hong Kong and Shanghai Banking Corp, 1977-86. Mr Joe Harris, chief executive, textile division, retires at the annual meeting (May 22), but continues as a consultant. Mr Steven Breeze, chairman of Russell Hobbs Tower, will not be seeking re-election as a director at the annual meeting, following the group's decision to concentrate on home entertainment and computer peripherals.

■ Mr Bill Ashberry, general manager of the Lancastrian Building Society, has been elected chairman of the NORTHERN ASSOCIATION OF BUILDING SOCIETIES.

Senior post at Stock Exchange

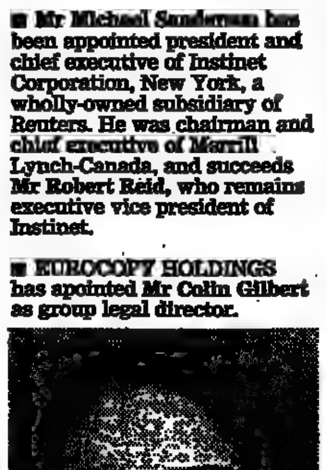
■ Mr Rod Margree has been appointed managing director of the settlement services division of THE INTERNATIONAL STOCK EXCHANGE, London, from June 18. He will join the Exchange on a full-time three-year secondment from Barclays Bank, where he is corporate director of the financial institutions unit.

■ KYMMENE UK PAPER SALES has appointed Mr Graham Fraser as divisional director publisher sales, and Mr Fred Haines as sales director merchant sales.

■ Mr Christopher Fitzpatrick, managing director of SCHOLES GROUP subsidiary, Wylex, and a main board director, has been appointed group managing director. Mr Rex Harrington, chairman and managing director, becomes chairman and chief executive. Mr Dennis Todd joins the main board as group technical director. He was involved in international marketing with the GE/GEC joint venture, Vynckier, based in Belgium.

■ Mr Michael Sanderman has been appointed president and chief executive of Instinet Corporation, New York, a wholly-owned subsidiary of Reuters. He was chairman and chief executive of Merrill Lynch-Canada, and succeeds Mr Robert Reid, who remains executive vice president of Instinet.

■ EUROCOPY HOLDINGS has apointed Mr Colin Gilbert as group legal director.



Dr Louise Bennett (above) has been appointed director - information technology at THORN SECURITY, a new post. She was head of information technology at Thorn EMI Electronics.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

BRITISH FUNDS—Contd

Index-Linked

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

Continued on next page

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BANKS, HP & LEASING

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
303	219	ANZ SA1	225	+6	44c	1.4	8.8	8.0
196	172	Abbey National 10p	188	+4	5.7	4.3	4.0	7.6
282	229	Allied Irish Ord.	230	+1	Q40%	3.3	4.3	11.8
£13½	£11½	Algemene Fl.10	£12¼	–¼	Q28%	2.1	7.2	6.6
85	73	Anglo Irish	77	.....	Q18.7%	2.7	5.7	10.5
81	68	Ansbacher (H.) 1p	68	.....	2.5	1.3	4.9	19.6
£70¾	£54¼	Bancaire Cie Fr100	£67¾	+¼	Q12½%	–	2.1	–
£22¾	£16¾	Banco Bilbao Viz	£18¼	.....	Q17.9%	2.0	3.9	12.7
£31	£24¼	Banco de Santander	£28¼	.....	Q25%	2.4	4.0	10.5
286	227	Bank Ireland Ir£1	229	+1	Q12.3%	3.2	5.1	7.8
£19½	£18	Bank Leumi	£19½	.....	–	–	–	–
350	320	Bank Leumi (U.K.)	345	.....	13.5	–	5.2	–
125	104	Bank Scotland	106	+½	4.55	3.6	5.7	6.4
100¼	83¼	Do. 9¼pc Irrd Pf.	84	.....	9¼%	–	14.7	–
54	42	Bank of Wales	42	–2	2.8		8.9	
599	493	Barclays £1	520	+11	27.4	3.5	7.0	5.1
22	14	Beachmark 20p	15	.....	1.63	1.0	14.4	8.6
335	310	Brown Shipley £1	315	.....	10.5	–	4.4	–
455	365	Cater Allen £1	365	–10	23.5	–	8.6	–
179	139	Chancery	142	–5	18.0	2.8	7.5	6.3
£23¼	£19¾	Commerzbk DM10	£20	.....	Q18%	–	3.3	–
£13¼	842	Dai Ichi KBk Y50	895	+43	Q16%	8.8	0.3	34.2
£313	£262½	Deutsche Bk DM50	£277	+6	Q28%	–	1.8	–
£20¾	£19	Espirito Santo	£20½	+¼	Q75c	3.3	2.2	13.9
253	183	First Nat. Fin. 10p	203	.....	13.0	2.4	8.5	6.3
121	96	FNFC 6.3pc Cv. Pf.	101	+1	6.3%	–	8.3	–
£15¼	953	Fuji Bank Y50	£10¼	+½	Q15.6%	4.2	0.3	–
325	262	Gerrard & National	267	+3	18.5	–	9.2	–
154	143	Guinness Mahon 10p	144	.....	2.1	–	1.9	–
328	223	Hambros 20p	220	.....	10.0	–	5.8	–
128	93	Do. 7.5pc Cv Pf.	94	.....	7½%	–	10.6	–
53½	45	HK & Shang. HK$2.50	45½	+½	Q38c	–	6.3	–
478	458	Joseph (Leo) £1	458	.....	15.85	–	4.6	–
145	126	King & Shaxson 20p	126	–2	9.25	–	9.8	–
422	340	Kleinwort Benson Grp.	347	+1	16.0	2.5	6.1	8.8
642	403	Kyowa Bank Y50	448	+10	Q14%	4.7	0.6	33.9
307½	242	Lloyds £1	259	+5	13.3	2.6	6.8	6.1
56	45	Lon. Scot. Bank 10p	45	.....	2.4	1.8	7.1	9.4
404	272	Midland £1	284	+4	18.0	2.6	8.5	5.9
£14½	£10	Mitsubishi Bank Y50	£10	.....	Q16%	8.1	0.3	44.6
£12¾	£6	Mitsubishi Tst & Bk Y50	£7	+¾	Q16%	8.2	0.4	30.0
£10¾	£7	Mitsui Bank Y50	£8	–¾	Q16%	6.0	0.4	45.3
904	559	Mitsui Tst & Bk Y50	607	+9	Q16%	7.1	0.5	26.9
326	279	Nat. Aust. Bk. A$1	287	+8	Q50c	1.6	7.9	7.9
360	299	NatWest £1	320	+11	16.7	3.3	7.0	5.8
£210	£190	Ottoman Bank	£208	.....	Q10%	2.8	5.8	6.1
55	39	Rea Bros. Group	43	+2	0.5	3.4	1.6	20.6
200	155	Rothschild (J) Hldgs.	165	+2	9.5	3.6	7.7	4.7
227	149	Royal Bk. Scotland	169	+10	7.2	3.8	5.8	5.8
795	424	Saitama Bank Y50	485	+1	Q13%	4.7	0.5	40.0
£12¼	806	Sanwa Bank Y50	887	.....	Q16%	8.3	0.4	30.6
1805	1425	Schroders £1	1450	.....	25.0	5.9	2.3	10.6
1425	1075	Do. £1 N/V	1100	.....	25.0	5.9	3.0	8.3
£25¼	£20½	Sec. Pacific $10	£21	.....	Q$1.96	–	5.4	–
616	475	Standard Chartd. £1	487	–3	35.0	1.4	9.6	(9.1)
£16¼	£8¾	Sumitomo Bank Y50	£9	+¾	Q16%	7.5	0.3	49.8
£11	£6	Sumitomo Tst & Bk Y50	£7	+½	Q16%	8.1	0.4	27.5
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

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MOTORS, AIRCRAFT TRADES

1990 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
£24½	£8¾	DAF N.V. Fl5	£4¼	−1⅞	Q50%	2.0	9.7	5.0
149	120	General Mtrs Units	139	.....	[illegible]	−	5.4	−
41	26	March Group 5p	28	+2	[illegible]	−	−	−
£222½	£301½	Volkswagen DM50	£285	+2½	Q20%	2.8	1.7	21.8
£44⅜	£32⅞	Volvo Kr25	£32⅞	−⅝	Q62%	♦	4.8	♦

Commercial Vehicles

1990 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
253	183	ERF (Hldgs)	185	−1	15.0	3.7	10.8	3.3
198	134	Plaxton Grp	134	−1	8.5	♦	8.5	♦

Components

1990 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
458	420	Abbey Panels	453	.....	3.5	10.0	1.0	12.0
225	203	Airflow Streamlines	215	.....	6.0	4.2	3.7	8.6
190	150	Bostrom 5p	150	.....	5.75	3.1	5.1	6.8
264	191	Dowty 50p	214	+2	8.0	2.3	5.1	11.0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

1990 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	Hamilton Oil Corp.	£20½	+⅛	Q10c	−	0.3	−
[illegible]	[illegible]	Hardy Oil & Gas 50p	171	+6	−	−	−	−
[illegible]	[illegible]	Intl Pet Crpn	195	.....	−	−	−	−
[illegible]	[illegible]	[illegible] Drilling 1p	16½	.....	♦	−	−	♦
[illegible]	[illegible]	[illegible] Energy 10p	17	.....	−	−	−	−
[illegible]	[illegible]	[illegible] Cv. Prf	33	.....	6%	−	24.2	−
[illegible]	[illegible]	[illegible] Oil & Gas 50p	135	+2	2.66	♦	1.6	−
[illegible]	[illegible]	[illegible]	369c	+8	b7.5	1.6	2.7	26.9
[illegible]	[illegible]	[illegible] "Ops" 10p	155	.....	21.61	−	18.8	−
[illegible]	[illegible]	[illegible] Cnv Rd Pf £1	94½	.....	9.63%	−	13.6	−
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES—Contd

Miscellaneous

1990 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's
190	140	Anglesey Mining 5p	140	.....	−	−	−
110	60	Do. Warrants	68	−2	−	−	−
17	12½	Anglo-Dominion	14½	.....	−	−	−
651	480	Bond Intl. Gold	480	−9	−	−	−
37	23	Butte Mining 10p	23	.....	−	−	−
44	18	Colby Res Corp.	19½	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible]

REGIONAL & IRISH STOCKS

[illegible]

IRISH

[illegible]

TRADITIONAL OPTIONS

3-month call rates

Industrials

[illegible]

Property

[illegible]

Oils

[illegible]

Mines

[illegible]

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1,650 per annum for each security.

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AUTHORISED UNIT TRUSTS

GUIDE TO UNIT TRUST PRICING

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	Init Charge	Canc. Price	Bid Price	Offer Price	+ or −	Yield Gr's
Thornton Unit Managers Ltd (1000)F						
33 Cavendish Sq., London W1M 7HF 01-493 7262						
Dealing 01-493 8545						
American Opps	5	52.42	53.43	56.99	+0.51	0.20
(Accum Units)	5	54.15	54.99	58.64	+0.52	0.20
European Opps	5	76.18	76.52	81.61	+0.06	0.00
(Accum Units)	5	76.60	76.94	82.06	+0.06	0.00
Far Eastern Opps	5	129.16	129.28	137.89	+0.70	0.00
(Accum Units)	5	129.98	130.11	138.77	+0.70	0.00
Golden Opps	5	36.22	36.22	38.63	+0.32	0.00
(Accum Units)	5	37.26	37.26	39.75	+0.32	0.00
Incl Hi-Yield	5	58.93	58.96	62.88	-0.01	4.38
(Accum Units)	5	64.23	64.27	68.54	-0.02	4.38
Sanyo Japan Tst	5	62.93	62.93xd	67.12	+0.54	0.00
(Accum Units)	5	62.93	62.93xd	67.12	+0.54	0.00
Kangaroo	5	29.41	29.41	31.36	+0.45	1.33
(Accum Units)	5	29.58	29.58	31.54	+0.45	1.33
Oriental Income	5	32.81	32.81	34.99	+0.05	5.00
(Accum Units)	5	37.44	37.44	39.93	+0.06	5.00
Tiger	5	144.89	144.89xd	154.54	+0.36	0.72
(Accum Units)	5	147.46	147.46xd	157.28	+0.36	0.72
UK Hi-Yield	5	40.46	40.46	43.15	-0.19	5.30
(Accum Units)	5	46.26	46.26	49.33	-0.23	5.30
UK Opps	5	52.14	53.61	57.33	+0.12	0.74
(Accum Units)	5	55.73	58.42	62.47	+0.14	0.74
Three Counties Asset Mngmt Ltd (1430)F						
Cuthbert House, Tower Road, Washington NE37 2SR 091 415 3034						
Balanced Portfolio	6	88.87	90.41	96.18	+0.5	4.09
Timberlake Trust Mngrs Ltd (0900)F						
1 White Hart Yard, London SE1 1NX 01 407 5966						
Portfolio	3	96.58	96.58	99.25	-1.38	1.19
Touche Remnant Unit Tst Mngt Ltd (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 01-248 1250						
4 Hourly Pricing - 12 Noon Historic						
TR American Grth	5¼	46.71	46.71	49.82		0
TR Eur Sp Sits Acc	5¼	45.28	45.28	48.15	+0.06	0
TR Eur Sp Sits Inc	5¼	44.40	44.40xd	47.22	+0.07	0
TR Far East Opps Inc	5¼	22.92	23.01	24.48	-0.12	—
TR Far East Opps Acc	5¼	22.92	23.01	24.48	-0.12	—
TR General Growth	5¼	70.14	70.14	74.61	+0.81	2.74
TR Global Tech	5¼	71.62	71.62xd	76.99	+0.22	0
TR Income Growth	5¼	80.54	80.54	85.68	+0.67	4.67
TR Income Monthly	5¼	49.20	49.20	52.34	+0.14	7.77
[illegible]						

	Bid Price	Offer Price	+ or −	Yield Gross
NM Rothschild Asset Management Ltd				
NC Managed	54.8	58.3xd	+0.3	3.94
NC Property	191.9	209.7xd	—	—
J. Rothschild Fund Managers Ltd				
Intl Exempt	142.9	144.4	—	3.58
Stewart Ivory & Co Ltd				
Saints PPP Apr 2	248.4	261.5	—	0.00
Closed to new business				
Thornton Unit Managers Ltd				
Managed Exempt May 1	97.17	103.80xd	—	3.98
(Accum Units)	97.93	104.69xd	—	3.98
Touche Remnant Unit Tst Mngt Ltd				
TR Exempt European	1229	1244xd	—	1.45
TR Exempt Nth Amer	949	962xd	—	3.98
TR Exempt Pac Basin	854	868xd	—	0

INSURANCES

	Bid Price	Offer Price	+ or −	Yield Gross
AA Friendly Society				
Investment Magt. M & G Inv Magt Ltd				
AA Friendly Sy Apr 12	—	168.1	—	—
Abbey Life Assurance Co Ltd				
80 Holdenhurst Road, Bournemouth 0202 292373				
Prop. Ser. 1	299.7	315.5	+0.1	—
Equity Ser. 1	122.7	129.2	+0.7	—
Prop. Acc. Ser 2	461.9	486.3	+0.1	—
Equity Ser 2	142.3	149.8	+0.8	—
Selective Acc.	331.9	349.4	+1.0	—
Prop. Ser. 4	362.4	381.5	—	—
Equity Ser. 4	146.9	154.7	+0.6	—
Man. Ser. 4	425.3	447.7	+1.2	—
[illegible]				

OTHER UK UNIT TRUSTS

[illegible]

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3DJ 0296 395539

	Bid Price	Offer Price	+ or −	Yield Gross
Life Funds				
Managed Cautionary	97.8	103.0	−0.3	−
Managed Growth	134.7	141.8	+0.6	−
Managed Opportunity	137.6	144.9		−
NFMC Target Financial	93.8	98.8	+0.3	−
Pension Funds				
Managed Cautionary	104.5	110.0	−0.3	−
Managed Growth	138.8	146.2	+0.5	−
Managed Opportunity	139.8	147.2	+0.6	−
NFMC Target Mngd Pen	1458.2	1535.0	+11.0	−

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or −	Yield Gross
Managed Fund	211.2	222.4	−4.1	−
Managed Prospect Fund	177.6	187.0	−3.3	−
Pens Managed	277.2	291.8	−3.1	−
Pens UK Equity	319.5	336.4	−5.3	−
Pens Overseas Equity	389.7	410.3	−4.3	−
Pens Property	146.7	154.5	+4.7	−
Pens Fixed Interest	162.6	171.2	−3.3	−
Pens Index Linked	140.1	147.5	−1.1	−
Pens Deposit	194.9	205.2	+0.4	−
Harvester & P.R.P.				
UK Equity	139.7	147.1	−2.3	−
Overseas Equity	139.5	146.9	−1.6	−
Fixed Interest	111.2	117.1	−2.2	−
Property	122.1	128.6	+3.9	−
Index Linked	127.3	134.1	−1.0	−
Deposit	135.3	142.5	+0.4	−
Managed	139.8	147.2	−1.5	−
With Profits	137.9	145.2	+0.3	−

National Provident Institution
48 Gracechurch St, London EC3P 3HH 01-623 4200

[illegible]

Providence Capital Life Assc. Co Ltd — Contd.

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

FT UNIT TRUST INFORMATION SERVICE

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[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

CANADA (SIB RECOGNISED)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

GUERNSEY (**)

[illegible]

JERSEY (**)

[illegible]

ISLE OF MAN (**)

[illegible]

LUXEMBOURG (**)

[illegible]

OFFSHORE INSURANCES

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

	Bid Price	Offer Price	+ or -	Yield Gross
Wardley Investment Services Ltd				
Wardley S.E. Asia Tst	$11.97	12.70	-0.05	0.87
Japanese Warrants	$7.31	7.75	+0.13	-
Asian Warrants	$8.62	9.13	-0.13	-
European Warrants	$9.44	10.00	-0.07	-
Wells Fargo U.S. IT Fund				
NAV April 30		$9.37		-
Xiphias International Investment Fd Ltd				
Xiphias Int USD		$1.0099		-
Xiphias Int ECU		Ecu1.0127		-
Yamaichi Dynamic Mngt Co SA				
Advanced Tech		$21.15		-

Money Market Trust Funds

	Gross	Net	Cr Equiv CAR	Int. Cr
CAF Money Management Co Ltd				
48 Pembury Road, Tonbridge TN9 2JD			0732 770114	
Cafcash Deposit Fd	14.78	-	15.62	3-Mth
The COIF Charities Deposit Account				
2 Fore Street, London EC2Y 5AQ			01-588 1815	
Deposit	14.60	-	15.64	3-Mth
Gartmore Money Management Ltd				
2-3 White Hart Yard, London SE1R 1NX			01-236 1425	
Call Fund	15.13	11.80	16.20	6-Mth
7-day Fund	14.50	11.31	15.50	6-Mth
Special Fund	14.91	-	16.36	Mth
Dollar	7.00	5.46	7.45	3-Mth

Money Market Bank Accounts

	Gross	Net	Cr Equiv CAR	Int. Cr
Aitken Hume Bank plc				
30 City Road, EC1Y 2AY			01-638 6070	
Treasury Acc	13.50	10.53	14.60	Qtr
Mth Int Chq £1,000-£4,999	13.50	10.53	14.73	Mth
Mth Int Chq £5,000-£49,999	14.00	10.92	15.31	Mth
Mth Int Chq £50,000+	14.50	11.31	15.88	Mth
Allied Trust Bank Ltd				
97-101 Cannon St, London, EC4N 5AD			01-629 6800	
OMNA (£2,001+)	14.78	11.53	16.210	Mth
NICA (£2,001+)	13.90	10.84	15.196	Mth
PROMNA (£250,001+)	14.90	11.62	16.349	-
Bank of Ireland High Interest Cheque Acc				
36 Queen St, EC4R 1BN			01-625 7000	
2,000-9,999	13.782	10.750	14.921	Qtr
£10,000+	14.103	11.000	15.283	Qtr
Bank of Scotland				
38 Threadneedle St, EC2P 2EH			01 601 6746	
[illegible]	13.4	10.45	14.62	Mth
£25,000+	13.65	10.64	14.91	Mth

[illegible]

UNIT TRUST NOTES

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar unmoved by data

THE DOLLAR did not react to yesterday's US economic data on leading indicators and factory orders, or to warnings from Mr Manuel Johnson, Federal Reserve Board vice chairman, that inflation is too high. He said that although temporary factors have boosted inflation, there are also more fundamental factors at work.

A rise of 0.9 per cent in March US leading indicators reversed a fall of 1.0 per cent in February, while March factory orders rose 3.8 per cent, after falling 1.8 per cent in February. These reinforced recent indications of a recovery in US economic activity, but the dollar showed little reaction. Dealers are waiting for tomorrow's employment data amid expectations of a sharp rise in job creation. Market forecasts suggest that non-farm payrolls rose 382,000 in April, against a gain of only 26,000 in March. If this proves correct, it will underline Mr Johnson's remarks on inflation and increase speculation that the next move by the Fed will be to tighten its monetary stance.

At the London close the dollar showed small mixed changes, rising to DM1.6820 from DM1.6800; to FFr5.6425 from FFr5.6350; and to SFr1.4550 from SFr1.4545, but declined to Y158.30 from Y158.85. The dollar's index fell to 68.3 from 68.4.

Sterling remained resilient in spite of fears that the ruling UK Conservative Party will suffer large losses at today's local government elections. A bad result for the Conservative's is already discounted in the pound's value, supporting the view that sterling may weather the storm if the Party does slightly better than opinion polls suggest. On the other hand dealers believe there is limited room for improvement, with DM2.80 regarded as a strong resistance point.

Sterling finished 1 pfennig higher at DM2.7650 in London last night and also gained 30 points to $1.6435. The pound rose to FFr9.2725 from FFr9.2450; and to SFr2.3925 from SFr2.3850, but eased to Y260.25 from Y260.50. Its index advanced 0.2 to 87.1.

The D-Mark had a weak undertone on fears about the impact of German monetary union and the threat of growing labour unrest in West Germany. The metal workers' union called for further strikes after several factories were hit by industrial action on Monday. In Paris the D-Mark was fixed lower against the French franc, but improved slightly to FFr3.3545 from FFr3.3540 at the London close.

The Spanish peseta remained at the top of the European Monetary System, and the Italian lira was firm, around its upper divergence limit against the weaker members.

The Australian dollar rose to 75.25 US cents from 74.60 cents in London. The Reserve Bank of Australia sold Australian dollars against its US counterpart during morning trading in Sydney, but the local currency rose in the afternoon as the central bank stayed out of the market.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu May.2	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.1679	42.2607	+0.22	+0.37	±1.5508
Danish Krone	7.79845	7.78554	-0.17	-0.02	±1.6463
German D-Mark	2.04446	2.04789	+0.17	+0.32	±1.1762
French Franc	6.85684	6.86941	+0.18	+0.33	±1.3618
Dutch Guilder	2.30358	2.30288	-0.03	+0.12	±1.5272
Irish Punt	0.763159	0.763272	+0.01	+0.16	±1.6689
Italian Lira	1529.70	1501.07	-1.87	-1.72	±1.5162
Spanish Peseta	132.889	128.950	-2.96	-2.96	±4.2705

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

May.2	Close	Previous Close
£ Spot	1.6845-1.6852	1.6440-1.6450
1 month	0.90-0.89pm	0.94-0.93pm
3 months	2.67-2.65pm	2.64-2.61pm
12 months	9.22-9.15pm	9.25-9.15pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

May.2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6370 - 1.6440	1.6430 - 1.6440	0.90-0.88cpm	6.50	2.68-2.65pm	6.49
Canada	1.9110 - 1.9200	1.9160 - 1.9170	0.29-0.21cpm	1.57	0.87-0.74pm	1.68
Netherlands	3.10¼ - 3.11¼	3.10¼ - 3.11¼	1⅞-1⅝cpm	7.00	5¼-5pm	6.52
Belgium	56.90 - 57.25	57.05 - 57.15	31-20cpm	5.36	85-64pm	5.22
Denmark	10.49¼ - 10.52½	10.51¼ - 10.52¼	4⅛-3⅞orepm	4.78	12¼-11¼pm	4.54
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar 3.05-3.00cpm. 12 month 5.22-5.12cpm.

CURRENCY RATES

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

CURRENCY MOVEMENTS

[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) *Rates are for May.1.

EURO-CURRENCY INTEREST RATES

[illegible]

Long term Eurodollars: two years 9⅝-9⅞ per cent; three years 9¾-9⅞ per cent; four years 9⅞-9⅞ per cent; five years 9⅞-9⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

OTHER CURRENCIES

May.2	£	$
[illegible]	[illegible]	[illegible]
Taiwan	43.30 - 43.40	26.40 - 26.45
U.A.E.	6.0265 - 6.0335	3.6715 - 3.6735

*Selling rate

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS

[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]

LIFFE BUND FUTURES OPTIONS

[illegible]

LIFFE EUROMARK OPTIONS

[illegible]

LIFFE EURODOLLAR OPTIONS

[illegible]

LIFFE SHORT STERLING OPTIONS

[illegible]

LONDON (LIFFE)

[illegible]

CHICAGO

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

BASE LENDING RATES

	%		%		%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Clydesdale Bank	15	McDonnell Douglas Bnk.	15		
Comm. Bk. N. East	15	Midland Bank	15		
		Mount Banking	15		
		Nat Bk. of Kuwait	15		

Instant access 13.7% § Mortgage base rate. § Demand deposit 9%. Mortgage 15.2% - 15.95%

MONEY MARKETS

Nervous trading

Trading was nervous on the London money market yesterday, ahead of today's local government elections in Britain. Three-month interbank firmed slightly to 15¾-15⅝ per cent from 15⅝-15½ per cent, but 12-month money was steady at 15⅜-15⅝ per cent, with sentiment helped by the good performance of sterling on the foreign exchanges.

Short sterling contracts traded quietly on Liffe. September delivery opened firmer at 84.75, and after holding in a very narrow range closed at 84.73 against 84.72 previously.

Credit was in short supply on the money market. The Bank of England initially forecast a day-to-day shortage of £950m. This was revised to £900m at noon, and down to £650m in the afternoon. Total help of £604m was provided.

An early round of assistance was offered and at that time the authorities bought £29m bank bills outright, in band 2 at 14¾ per cent. Another £256m bills were purchased before lunch, by way of £27m bank bills in band 1 at 14¾ per cent and £229m bank bills in band 2 at 14¾ per cent. In the afternoon the Bank of England bought £99m bills, via £64m bank bills in band 1 at 14¾ per cent and £35m bank bills in band 2 at 14¾ per cent. Late assistance of around £220m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £782m, with Exchequer transactions absorbing £170m, and a rise in the note circulation £115m. These outweighed bank balances above target of £105m.

In Frankfurt credit conditions were tight as the Bundesbank drained liquidity at this week's securities repurchase agreement tender and banks built up reserve assets at the beginning of the month. Call money rose to 7.90 per cent, only slightly below the 8 per cent Lombard emergency financing rate.

At the tender the central bank accepted bids totalling DM29.8bn, made up of DM19.3bn for a 35-day agreement and DM10.5bn for a 63-day pact. This drained a net DM2.5bn from the banking system, as two earlier facilities totalling DM32.3bn expired. Rates bid were similar to the last tender suggesting that although the Frankfurt market fears higher interest rates in the future, there is no expectation that official rates will be increased at today's Bundesbank council meeting in West Berlin.

UK clearing bank base lending rate 15 per cent from October 5

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

NEW YORK (4pm)

[illegible]

LONDON MONEY RATES

[illegible]

LEGAL NOTICES

[illegible]

JOTTER PAD

CROSSWORD

No.7,229 Set by DINMUTZ

ACROSS

1 Transport available for port in Alabama (6)
4 Old woman's cabinet that turned out to be boneless (8)
9 Alice mainly in firm, coarse fabric (6)
10 Cori false design in the open air (8)
12 Position of unwelcome co-driver (8)
13 Night-rider, for example, to venerate (6)
15 Cheese made the wrong way round (4)
16 Outline of hotel suite to be repaired (10)
19 Earliest rock music? (6-4)
20 Bulletin giving score (4)
23 Torrent from a number of layabouts? (6)
25 Enhance number in row, inside a layer (8)
27 "Wild Bill Hickok," for example – cinerama disaster (8)
28 Illegal delivery producing big shot by everybody (2-4)
29 Game for sentry sent back to heights? (8)
30 Capital composer (6)

DOWN

1 Mum tossing caber – how weird! (7)
2 Battle-helmet? (9)
3 Copper missing outside? What a pest! (6)
5 No peach, we hear, this hybrid fruit (4)
6 Wine from a rude box, perhaps (8)
7 Area in the house for rollers? (5)
8 English code is broken in bishop's place (7)
11 Steam is used to reveal French painter (7)
14 Fortune left to build part of church (7)
17 Perhaps at thrilly stage in final set? (6-3)
18 Transient, if gentle, move (8)
19 One to share billing by day in the Big Apple? (7)
21 An oil spread between ends of Lincoln, say (7)
22 Wild region to pass over (6)
24 Love-game perhaps – last of the series! (5)
26 To go without food makes one so giddy (4)

Solution to Puzzle No.7,228

SETTLE BASEST
FOREIGN MAPPING
PERMISSIVE ORAL
BASRA EINSTEIN
SEDIMENT RANGE
TESS HERBALISTS
STEALTH PILOTED
RETORT INTEND

WORLD STOCK MARKETS

AUSTRIA — May 2 — Sch. — + or −

[illegible]

BELGIUM/LUXEMBOURG — May 2 — Frs. — + or −

[illegible]

DENMARK — May 2 — Kr — + or −

[illegible]

FINLAND — May 2 — Mka — + or −

[illegible]

FRANCE — May 2 — Frs. — + or −

[illegible]

FRANCE (continued) — May 2 — Frs. — + or −

[illegible]

GERMANY — May 2 — Dm. — + or −

[illegible]

GERMANY (continued) — May 2 — Dm. — + or −

[illegible]

ITALY — May 2 — Lire — + or −

[illegible]

ITALY (continued) — May 2 — Lire — + or −

[illegible]

NETHERLANDS — May 2 — Fls. — + or −

[illegible]

NORWAY — May 2 — Kroner — + or −

[illegible]

SPAIN — May 2 — Pts. — + or −

[illegible]

SWEDEN — May 2 — Kroner — + or −

[illegible]

SWITZERLAND — May 2 — Frs. — + or −

[illegible]

SOUTH AFRICA — May 2 — Rand — + or −

[illegible]

JAPAN — May 2 — Yen — + or −

[illegible]

AUSTRALIA — May 2 — Aust.$ — + or −

[illegible]

AUSTRALIA (continued) — May 2 — Aust.$ — + or −

[illegible]

HONG KONG — May 2 — H.K.$ — + or −

[illegible]

MALAYSIA — May 2 — M.$ — + or −

[illegible]

SINGAPORE — May 2 — S.$ — + or −

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Madrid Exchange closed May 2.

CANADA

TORONTO
4pm prices May 2

Quotations in cents unless marked $.

[illegible]

MONTREAL
4pm prices May 2

[illegible]

Total Sales 5,451,847 shares.

f—No voting rights or restricted voting rights.

INDICES

NEW YORK
DOW JONES

	May 2	May 1	Apr 30	Apr 27	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
φIndustrials	2689.64	2668.92	2656.76	2645.05	2810.15 (2/1)	2543.24 (30/1)	2810.15 (2/1/90)	41.22 (2/7/32)
Home Bonds	[illegible]	88.55	88.62	88.77	93.04 (3/1)	88.48 (2/5)	—	—
Transport	1138.69	1136.81	1129.98	1128.20	1201.10 (2/1)	1031.83 (30/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	204.79	204.10	203.09	203.72	236.23 (2/1)	203.09 (30/4)	236.23 (2/1/90)	10.50 (8/4/32)

φDay's High 2697.30 (2687.39) Low 2659.01 (2651.35)

STANDARD AND POOR'S

	May 2	May 1	Apr 30	Apr 27	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	334.48	332.25	330.80	329.11	359.69 (2/1)	322.98 (30/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	389.81	386.94	385.44	383.34	411.20 (2/1)	371.92 (30/1)	411.20 (2/1/90)	3.62 (21/6/32)
Financial	27.14	26.85	26.72	26.59	31.87 (3/1)	26.59 (27/4)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	183.34	182.22	181.49	180.74	198.00 (2/1)	178.43 (30/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	344.33	343.32	343.10	342.64	382.45 (5/1)	342.64 (24/4)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	[illegible]	421.85	420.07	417.98	460.90 (3/1)	410.72 (30/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Apr 27	Apr 20	Apr 13	year ago (approx.)
Dow Industrial Div. Yield	4.15	4.07	-	3.45

	Apr 25	Apr 18	Apr 11	year ago (approx.)
S & P Industrial div. yield	3.13	3.05	3.04	3.26
S & P Indl. P/E ratio	14.72	15.08	15.13	12.85

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day
Am Gen Corp	(u)	47⅝	+ 7⅛
Ames Dept Stores	(u)	2⅝	+ ⅛
Union Carbide	(u)	18⅞	- ⅛
Gen Motors	(u)	44⅞	+ ⅜
Navistar Intl	(u)	3⅝	+ ⅛
Schlumberger	(u)	52⅛	+ ⅞
IBM	(u)	109⅞	+ 1⅞
Citicorp	(u)	22⅞	+ ⅛
Philip Morris	(u)	42⅞	+ ⅜
Boeing	(u)	73	+ ⅞

TRADING ACTIVITY

† Volume Millions	May 2	May 1	Apr 30
New York	141.610	149.020	122.750
Amex	9.932	8.951	8.230
NASDAQ	(u)	124.135	105.793
Issues Traded	1,945	1,951	1,960
Rises	853	811	727
Falls	583	676	735
Unchanged	509	464	498
New Highs	16	10	5
New Lows	79	85	125

CANADA
TORONTO

	May 2	May 1	Apr 30	Apr 27	1990 HIGH	1990 LOW
Metals & Minerals	2907.70	2880.00	2907.50	2899.30	3453.05 (4/1)	2850.80 (23/4)
Composite	3340.40	3334.20	3341.00	3336.10	4009.47 (3/1)	3334.20 (1/5)
MONTREAL Portfolio	1728.09	1724.96	1730.06	1720.25	2060.90 (3/1)	1720.25 (27/4)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	May 2	May 1	Apr 30	Apr 27	1990 HIGH	1990 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1462.7	1440.6	1434.5	1456.4	1713.7 (12/1)	1434.5 (30/4)
All Mining (1/1/80)	726.4	715.3	717.1	725.5	860.8 (5/1)	715.3 (1/5)
AUSTRIA						
Credit Aktien (30/12/84)	585.33	(c)	584.60	608.93	703.29 (19/3)	526.59 (2/1)
BELGIUM						
Brussels SE (Cash Mkt) (1/1/80)	6082.07	(c)	6064.94	6062.10	6599.43 (12/1)	5668.16 (26/2)
DENMARK						
Copenhagen SE (3/1/83)	358.39	355.94	357.58	360.14	380.47 (28/3)	352.96 (25/4)
FINLAND						
Unitas General (1975)	573.3	(c)	577.8	579.7	677.3 (23/1)	572.7 (25/4)
FRANCE						
CAC General (31/12/82)	546.95	(c)	547.13	550.66	557.11 (23/4)	482.94 (26/2)
CAC 40 (31/12/87)	2066.55	(c)	2046.45	2066.27	2129.32 (20/4)	1800.32 (26/2)
GERMANY						
FAZ Aktien (31/12/58)	776.15	(c)	766.09	769.30	830.92 (3/4)	732.71 (24/1)
Commerzbank (1/12/53)	2251.0	(c)	2221.5	2228.6	2414.0 (3/4)	2151.5 (24/1)
DAX (30/12/87)	1843.41	(c)	1813.25	1825.52	1968.55 (30/3)	1756.41 (24/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2957.76	2945.18	2950.09	2986.33	3067.67 (19/4)	2738.24 (1/2)
IRELAND						
ISEQ Overall (4/1/88)	1592.61	1583.66	1612.93	1650.39	1893.10 (22/1)	1582.61 (2/5)
ITALY						
Banca Com. Ital. (1972)	689.86	(c)	689.61	691.32	713.86 (17/4)	646.73 (26/2)
JAPAN						
Nikkei (16/5/49)	30173.64	29589.83	(c)	29854.80	38712.88 (4/1)	28002.07 (2/4)
Tokyo SE (Topix) (4/1/68)	2247.81	2214.78	(c)	2205.96	2867.70 (4/1)	2058.82 (5/4)
2nd Section (4/1/68)	3579.96	3547.14	(c)	3530.95	4384.68 (9/2)	3313.92 (5/4)
MALAYSIA						
KLSE Composite (4/4/86)	518.33	(c)	520.97	(c)	622.20 (20/2)	518.55 (2/5)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	252.8	251.7	(c)	252.0	269.0 (3/1)	240.1 (26/2)
CBS All Shr (End 1983)	192.4	191.6	(c)	191.8	206.3 (3/1)	184.2 (26/2)
NORWAY						
Oslo SE (2/1/83)	790.06	(c)	775.50	775.02	845.40 (16/3)	701.67 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	963.88	(c)	936.57	977.33	1160.78 (21/3)	936.57 (30/4)
SINGAPORE						
SES All-Singapore (2/4/75)	401.61	(c)	401.34	404.26	443.34 (6/2)	401.34 (30/4)
SOUTH AFRICA						
JSE Gold (28/9/78)	1705.0	(c)	1738.0	1799.0	2230.0 (16/1)	1692.0 (25/4)
JSE Industrial (28/9/78)	2820.0	(c)	2802.0	2796.0	3211.0 (8/2)	2794.0 (25/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	(c)	718.45	688.66	748.86	928.82 (4/1)	688.66 (30/4)
SPAIN						
Madrid SE (30/12/85)	(c)	(c)	272.22	272.25	302.85 (4/1)	248.17 (2/4)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	1155.7	(c)	1152.9	1161.6	1317.88 (12/1)	1127.20 (2/4)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	742.3	(c)	740.3	750.2	787.2 (11/1)	737.6 (27/3)
TAIWAN**						
Weighted Price (30/6/66)	8574.54	8734.95	9292.37	9713.78	12495.34 (10/2)	8574.54 (2/5)
THAILAND						
Bangkok SET (30/4/75)	851.25	(c)	859.97	859.36	918.67 (3/1)	760.39 (7/2)
WORLD						
M.S. Capital Intl. (1/1/70)	(c)	477.9	475.9	475.4	571.8 (4/1)	468.3 (2/4)

**Saturday Apr. 28: Taiwan Weighted Price: 9665.50 Korea Comp Ex. 720.37

Δ Subject to official recalculation.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX—1,000, JSE Gold—255.7, JSE Industrials—264.3 and Australia All Ordinary and Mining—500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Wednesday May 2 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Isuzu	40.9m	1,130	+10	Nippon Steel	7.7m	590	+19
Nippon Mining	17.2m	990	-10	SH2	7.6m	882	+22
NKK	12.7m	593	+15	Mitsui Eng&Shp	7.6m	955	+34
Furukawa Elc	10.2m	855	+44	Osaka Gas	7.2m	690	+28
Hitachi	7.6m	1,600	0	Cosmo Oil	6.7m	965	+34

4pm prices May 2

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	20¼	AAR	.48	2.1	14	2012	22⅝	22	22⅝	+ ½
9¼	6	ACM n	1.01	12.		358	8¼	8	8¼	
11⅝	10½	ACMIn	1.28	12.		970	10¾	10⅝	10¾	+ ⅛
9⅜	7⅛	ACM M	n1.01	13.		380	7½	7⅜	7½	+ ⅛
12⅛	11⅛	ACMMM				82	11⅝	11½	11⅝	
11½	9¼	ACM Sc	1.26	13.		650	9⅞	9¾	9¾	– ⅛
9⅝	8¼	ACMSp	1.01	12.		297	8¼	8¼	8⅝	
22⅝	14⅝	AL Lab	.16	.8	19	397	20⅜	20	20¼	+ ⅜
4⅛	3	AMCA	.20e	6.4	9	10	3⅛	3⅛	3⅛	– ⅛
6⅛	2¼	AM Ind			8	647	2⅜	2¼	2¼	– ⅛
23¼	12½	AM In pf	2	16.		69	12⅝	d12⅛	12⅛	– ⅜
107¼	62½	AMR			12	2711	63⅝	62⅞	63¼	+ ⅜
4⅞	3	ARX				69	3¼	3⅛	3¼	+ ⅛
72⅛	39	ASA	3a	6.3		565	47⅛	47⅛	47½	– ½
70⅛	54⅝	AbtLab	1.68	2.5	17	3866	68⅝	67⅞	67⅞	+ ⅛
36⅛	27¼	AbtLb wi				12	34⅝	34⅛	34½	+ ½
17¼	11¼	Abitibi g	.50			108	12⅜	12⅜	12⅜	
13	8⅞	AcmeC	.40	4.5	10	14	9	8⅞	8⅞	– ⅛
9¼	7½	AcmeE	.32	3.8	10	2	8½	8½	8½	
38½	28⅞	Acusn			22	477	36	35⅝	35⅞	– ⅛
16½	13⅞	AdaEx	2.08e	13.		88	15⅞	15⅝	15⅝	
15⅛	8⅛	Adobe				52	11⅛	11	11	– ⅛
20¼	17½	Adob pf	[illegible]	9.8		4	18¾	18⅞	18¾	– ⅛
21⅝	18⅞	Adob pf	2.40	12.		2	20⅝	20⅝	20⅝	+ ⅛
10½	6⅞	AMD			19	557	8¼	8⅝	8⅝	
35	28¼	AMD pf	3	10.		6	30	29⅞	29⅞	– ⅛
10⅛	4⅛	Advest	[illegible]	3.5	58	2	4⅝	4½	4⅝	+ ⅛
62½	45¼	AetnLf	2.76	5.7	8	2955	48½	47½	48¼	+ ⅜
14	9⅞	AflPb	.24	2.3		958	10⅛	10⅛	10¼	+ ⅛
25	18⅛	Ahmans	[illegible]	6.3	8	x1439	18½	18¼	18½	+ ⅛

[illegible]

Continued on Page 43

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMEX COMPOSITE PRICES

4pm prices May 2

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NASDAQ NATIONAL MARKET

3pm prices May 2

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
WilmTr	1.44	10	25	37½	36½	36½	
WisnrO	.40	25	4	19	19	19	
Wolohn	.22b	10	200	18½	17½	17½	− ½
WrkExp			1480	6½	6¼	6¾	+ ¼
Wolv wt			450	3⅝	3¼	3½	−1-16
Worthg	.56	16	732	21¼	21⅛	21¼	− ⅛
Wyman	.80		107	14⅛	13¾	13¾	
−X−Y−Z−							
XL Dat		5	211	8½	8	8⅛	+ ⅛
XOMA			7017	18⅜	17⅛	17⅜	− ½
Xicor			746	2½	2¼	2¼	
YorkRs		19	261	11¼	10⅞	11¼	− ⅛
ZionUt	1.44	10	109	30¼	29½	30¼	+1

FINANCIAL TIMES

Thursday May 3 1990

AMERICA

Interest rates overhang Dow's hesitant recovery

Wall Street

IN SPITE of modest weakness in the Treasury bond market before next week's quarterly refunding, equities registered respectable gains, *writes Janet Bush in New York.*

The Dow Jones Industrial Average closed up 20.72 points at 2689.64 on moderate volume of 141.6m shares, building on an advance of 12.16 points on Tuesday and 11.71 on Monday.

Broader market indices rose roughly in line with the blue chips. The number of stocks rising outpaced those declining by 852 to 582.

So far this week, the Dow has moved higher in incremental steps in rather thin trading, a somewhat unconvincing performance given that it had been falling sharply and was widely regarded as being oversold. Nevertheless, the modest gains have come despite continuing price falls in the bond market.

One major reason for the anaemic nature of the recovery this week is concern about next week's refunding at which the Treasury is expected to sell a record $30.5bn to $31bn of bonds against a background of uncertainty about interest rates.

The issue of rates is relevant both in the US and abroad. Domestically, recent figures on economic activity and price pressures have suggested that there is some justification for the US Federal Reserve to tighten monetary policy.

Internationally, there is talk of the possibility of a co-ordinated interest rate rise in Japan, West Germany and the US. The Group of Seven is scheduled to meet on Monday in Washington.

Yesterday's economic releases included a 0.9 per cent rise in US leading indicators in March, larger than the financial markets had expected. The Tan Book of reports on activity from regional Federal Reserve banks was also published.

The report concluded overall that the economy is expanding at a slow pace and that there has been some rebound in the manufacturing sector although no serious price pressures.

The Treasury market was left weaker by these items but none provided clear justification for a move in interest rates.

Financial markets will now be looking at tomorrow's April employment release for further clues on economic activity.

Among featured stocks yesterday, American General, the fourth largest publicly owned insurance company, rose $7⅛ to $47-58 after putting itself on the block.

It expects to fetch more than $7bn. Torchmark, its smaller rival which had earlier made but dropped a $6.3bn, $50 a share bid, said it would make another offer.

Eastman Kodak added $¼ to $37⅞ after it reported first quarter net income had fallen 6 per cent from a year earlier, roughly in line with forecasts.

Boeing added another $⅜ to $72⅞, continuing its sharp rise since it announced very good results on Monday.

Pepsico, hit on Tuesday on news that Burger King is switching its allegiance to Coca-Cola, added $1⅛ to $66⅝ after it announced that it was raising its quarterly dividend by 20 per cent to 30 cents a share.

Ames Department Stores rose $⅜ to $2⅞ after a federal bankruptcy judge gave interim approval for the retailer to get hold of $25m.

Canada

FOR THE third consecutive session there was little movement in Toronto share prices which closed mixed in dull trading.

The composite index gained 6.21 to 3,340.34 but declines led advances 295 to 287. Volume was 21.31m shares compared with 16.3m shares.

Ten of the 14 sub-indices were higher including consumer and industrial products shares, mining issues and energy stocks. Golds dropped 1.56% and banking stocks were also lower.

EUROPE

DAF hampers Amsterdam as most bourses advance

DISAPPOINTING earnings tipped the Netherlands lower, with DAF leading the declines. Although other leading bourses made healthy rises, volumes remained thin, *writes Our Markets Staff.* Madrid was shut for a holiday.

AMSTERDAM saw DAF plummet to lows of Fl 28.20 in active trading before edging up to close Fl 5.30, or 16 per cent, lower at Fl 28. DAF's warning that it would make a loss in the first half of 1990 cast a cloud over the whole market.

"There have been so many disappointing earnings in Holland that there is little reason for the market to take off," said one salesman. The CBS Tendency index fell 0.2 to 115.8.

DSM, which reported a smaller-than-expected drop in first quarter earnings because of lower taxes and an extraordinary gain, fell to Fl 113.10 before closing 30 cents higher at Fl 113.70. Hollandsche Beton Groep, the builder which said in its annual report that an expected tax burden would offset encouraging prospects for pre-tax earnings, eased Fl 1.50 to Fl 206.

Retailer Ahold was 10 cents lower at Fl 128.70 after saying it expected 1990 net profits to be substantially higher. Philips, due to announce first quarter results today, eased 30 cents to Fl 37.30.

FRANKFURT rose as domestic traders decided that it was time to take stock on to their books after an improvement in Tokyo, and in anticipation of interest from Japanese investors once their Golden Week holiday is over. The DAX index closed 30.16, or 1.7 per cent, higher at 1,843.41 after a rise of 9.26, or 1.2 per cent, to 776.15 in the FAZ at midsession.

Volume stayed relatively light at DM4.9bn, although it recovered from the DM3.7bn low for the year which it touched on Monday. Equities chose to ignore the continuing deterioration in the bond market, where the Bundesbank's average bond yield rose another two basis points to 9.06 per cent.

Equities saw their big rises in speculative, or more volatile situations such as Continental, up DM16.50 at DM303.50, and A & M, DM35 better at DM735. Lufthansa rose DM7 to DM189 and Nixdorf DM12 to DM348.50.

Institutional stocks saw Daimler and Deutsche Bank in particular favour, rising DM19.50 to DM842 and DM20.50 to DM768. Daimler was talking about higher truck volume this year as the Hanover trade fair opened yesterday; cars and financials have been relatively weak sectors of the market in the past month or so; and front-line international stocks such as these two might be expected to top foreign investors' buying lists if they come back to German stocks soon.

PARIS rose quite strongly after a stuttering start, but volume remained thin as many investors extended their May Day holiday. The strong finish in West Germany and the steadiness of domestic bonds encouraged the French market in the absence of corporate news, and the CAC 40 index finished near its day's high, rising 19.57 to 2,066.03.

Turnover was about FFr2bn worth of shares, up from Monday's very thin FFr1.4bn.

Peugeot had a good day, rising FFr27 to FFr887 with 133,750 shares traded; the gain was put down to bargain-hunting. Elf Aquitaine, the oil group, gained FFr6 to FFr668 in relatively busy trade after the emergency Opec meeting.

ZURICH featured Nestlé and Surveillance; the food company on good 1990 prospects and cancelled rights issue plans, and the quality control group on the liberalisation of its capital structure.

Nestlé bearers rose SFr150 to SFr8,400, while Surveillance saw its certificates fall SFr40 to SFr4,550 as its registered shares gained SFr450 to SFr5,650. The Crédit Suisse index rose 3.1 to 580.3.

MILAN was narrowly mixed in thin trading after Tuesday's holiday, as few investors were willing to enter the market before Sunday's local elections.

Telecommunications issue Stet, which had been heavily sold by London investors in recent weeks, jumped L100 to L5,580. "Stet has been oversold and is now looking interesting after underperforming the market by 10 per cent over the last month," said one analyst.

Agnelli holding companies drew demand, with Ifil closing L100 up at L27,990 and reaching L28,250 after hours. The Comit index rose 0.25 to 686.86.

OSLO rose after the previous day's wage agreement by public sector workers, who had been threatening strike action. Firmer overseas markets and a slight rise in North Sea oil prices also boosted share prices, with the all-share index gaining 9.24 to 604.25 in thin turnover of NKr185m.

Elkem, the metals company, gained NKr23, or 9.7 per cent, to NKr261. After the market closed, Saga Petroleum said it had bought a 10 per cent stake in Elkem, raising its holding to more than 12 per cent.

STOCKHOLM was pulled off its day's lows by a rise in Astra, the pharmaceutical company. Astra free B shares gained SKr13 to SKr416 and its free A shares added SKr18 to SKr418 on the news that Losec, its anti-ulcer drug, had been approved for sale in Italy.

Volvo free Bs lost SKr7 to SKr321 after figures revealing an 8 per cent fall in its US sales in April.

Seoul suffers as confidence floods away

Many individual investors are utterly disillusioned with shares, writes John Ridding

SOUTH KOREA's stock market, which has been moving gradually downwards this year, has accelerated its decline to a frightening extent in the past two weeks.

After gains of 90 and 73 per cent in 1987 and 1988, Seoul's composite index has lost almost 30 per cent since its all-time high in April 1989; it has set two records for one-day falls within the last two weeks.

A crisis of confidence has been brought about by a series of economic and social concerns. The most immediate is the re-emergence of labour unrest, which has caused severe economic disruption in each of the last three years and raises fears of social tension.

Strikes at Hyundai Heavy Industries, Korea's largest shipbuilder, and Korea Broadcasting System, the state-run television and radio network, have prompted more widespread disputes and heightened investor nervousness and police intervention.

The rise of inflation has also sapped confidence. The consumer price index, which underestimates the real rate of inflation, rose by nearly 5 per cent in the first four months of this year, approaching the Government's annual target of 5 to 7 per cent and threatening double-digit rises for the year as a whole. The build-up in money supply, demonstrated by 23 per cent growth in M2 for the first quarter, threatens greater inflationary pressures.

At the same time, the diversion of funds into real estate speculation has both exacerbated inflation – through the increase in land and rental prices – and weakened the stock market through the outflow of funds.

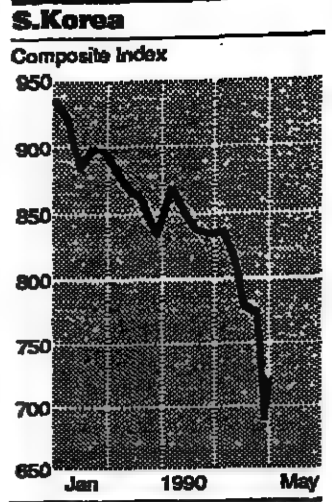
There are still bulls of the economy and the market. The Bank Of Korea is forecasting 7 per cent real GNP growth for the current year. "All of the indices are showing improvement," says Mr Don Lee of Ssangyong Securities, "and I am frustrated by investors' lack of confidence."

But even if the problems have been overstated, this does not imply a stock market recovery. "Investors have been badly burned," says one analyst at a foreign securities company; "they just want to get out." An additional problem is that many individual Korean investors have never previously experienced sharp falls and have become disillusioned altogether with the idea of investing in shares.

Pressure from investors and fears of complete collapse have prompted the Government to take action. On Tuesday, it announced a series of measures to curb real estate speculation, including forced sales of surplus land holdings by business conglomerates, particularly insurance and securities companies, and a number of anti-inflationary steps. The aim was to prevent a further flow of funds into land speculation and to generate resources for institutional investors.

The immediate response was impressive. The market gained more than 4 per cent and rose through the psychological 700 point barrier.

S.Korea



But analysts doubt that it will stay there. "Fundamental sentiment remains weak," says Mr Alistair Staddon of Baring Securities. "We think the market is likely to go down again." Most other securities companies agree, with the consensus being for a trading range of between 600 and 680 in the medium term. Yesterday, however, the market was forced to take a breather for a holiday.

For the first time, foreigners must be celebrating the fact that the market will remain closed to them until 1992. But those who invested in the various convertible bonds, bonds with warrants, unit trusts and closed-end funds which are traded on the euromarkets have also suffered. The Korea Europe Fund has seen prices decline by more than 50 per cent in the last seven months.

Possibly the greatest victims, however, have been Korean stockbrokers. A wave of protests, in which securities offices have come under violent attack from angry investors, must have prompted many of their employees to consider safer employment – perhaps in the fire brigade.

ASIA PACIFIC

Nikkei clears 30,000 in sandwich session

Tokyo

CURRENCY stability and expectations of future strength in equities encouraged broad-based buying yesterday, and share prices advanced above 30,000 for the first time since early last month, *writes Michiyo Nakamoto in Tokyo.*

The Nikkei average rose steadily, closing at its high of 30,173.64, a gain of 483.81, against a low of 29,736.03. Winners far outnumbered losers at 773 to 196 with 130 unchanged, and turnover doubled to 480m shares. The Topix index of all listed stocks gained 33.03 to 2,247.81 and, in London, the ISE/Nikkei 50 index fell 0.96 to 1,726.33.

Yesterday was the second of the two trading sessions sandwiched between the long weekends that make up the Golden Week holidays. Activity was still relatively thin, as many investors were away on holiday, while the rest were inclined to remain cautious.

None the less, a stable currency market and rises in the futures market attracted some investors. Observers suggested that a substantial amount of the buying yesterday was by professionals, who are expected to try to pass on their purchases to clients when trading resumes next week.

There was renewed interest in company news, with several issues being pursued on the strength of product developments. Furukawa Electric, for example, saw a surge in activity and rose Y44 to Y855 on reports that it had developed a new superconductive electricity storage system. Tokyo Electric Power was pursued because of its storage device which also uses superconductivity. It added Y30 to Y4,210.

Osaka Gas, the utility company, advanced Y26 to Y690 after its development of a fibriform activated carbon which holds electricity.

Elsewhere, Nippon Mining fell on profit-taking, losing Y10 to Y990. It was second in volume with 17.2m shares.

Cosmo Oil gained Y34 to Y998. Interest in the oil sector has followed talk of Middle Eastern interest in acquiring a Japanese refinery.

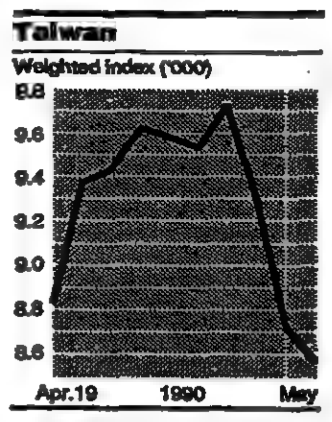
Large-capital issues led a strong rise in Osaka, taking the OSE average up 344.50 to 32,491.19. Turnover almost doubled to 46.3m shares from 24.8m on Tuesday.

Roundup

THE PACIFIC Rim was mixed, with Taiwan falling further while the antipodean markets rallied after recent losses.

TAIWAN fell for the fourth day in a row in spite of buying-in efforts by brokers. The weighted index had lost 450 points shortly before the close but recovered to finish 160.39 lower at 8,574.54, the lowest close for the year. Volume eased to 1.14bn shares valued at NT$91.17bn from Tuesday's 1.18bn shares valued at NT$97.15bn. Uncertainty over the cabinet reshuffle and Chinese criticism of Taiwan's support for a radio ship planning to beam pro-democracy messages to China continued to cloud the market.

Taiwan



AUSTRALIA rose for the second day in a row thanks to bargain-hunting by local and overseas investors and a continued recovery in Elders IXL shares. The All Ordinaries index rose 22.1 to 1,462.7. Turnover was steady at 79m shares valued at A$175m, after Tuesday's 79m shares valued at A$150m.

Elders IXL rose 7 cents to A$1.82 as concerns about the financial health of its parent, Harlin Holdings, receded. BHP, which has an investment in Harlin, recovered 16 cents to A$9.10.

NEW ZEALAND was encouraged by Australia's gains and ended higher on offshore buying of leading stocks. But sentiment was dented by a steep plunge in the share price of TV3 Network, the country's first private television network, after news that it asked its bank to appoint a receiver. TV3, floated only last November at NZ$2.50 a share, fell 53 cents to 10 cents.

The Barclays index rose 8.21 to 1,693.12 and turnover jumped to 9.8m shares valued at NZ$20.0m from Tuesday's 4.8m shares valued at NZ$5.3m.

HONG KONG rose on bargain-hunting after four days of losses. The Hang Seng Index gained 12.58 to 2,957.76. Turnover improved to HK$811m from HK$720m on Tuesday. Banking issues showed the steepest gains, followed by properties, commercial and industrial stocks.

MANILA overcame initial weakness to close higher after nine days of declines. But dealers said that the firmer tone was only a technical bounce, considering the market had lost almost 15 per cent since April 18. The composite index rose 26.51 to 963.08, up 2.83 per cent from Monday.

SINGAPORE concentrated on takeover target Singapore Land and its suitor, United Industrial Corp (UIC), the two most actively traded stocks.

UIC and Singapore Land registered volumes of 8.44m shares and 5.52m shares respectively, mainly due to large block transactions. UIC closed 2 cents higher at S$2.42 while Singapore Land added 20 cents to S$14.80. UIC has been buying shares in its target at less than its offered price of S$15 a share, bringing its stake to about 30.5 per cent. But speculation abounded that Singapore Land and its allies might try to get control of UIC.

The Straits Times index slipped 0.22 to 1,458.18.

KUALA LUMPUR saw some bargain-hunting but ended lower. The composite index fell 2.04 to 518.53.

SOUTH AFRICA

DE BEERS dominated Johannesburg after disclosing details of its offshore arm, De Beers Centenary AG. The stock reached R96, before closing R5.35 up at R93.85. The overall index rose 25 to 3,057.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY MAY 2 1990						TUESDAY MAY 1 1990			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (81)	128.94	+2.5	116.31	114.01	+1.7	8.08	125.85	113.73	112.16	158.31	125.85	136.55
Austria (19)	246.93	−0.6	222.75	216.02	−0.4	1.53	248.31	224.41	216.91	265.93	193.15	122.69
Belgium (61)	146.92	+0.2	132.54	125.90	+0.5	4.63	146.58	132.47	125.25	160.02	132.11	133.17
Canada (120)	130.81	+0.2	118.01	110.59	+0.4	3.60	130.57	118.00	110.10	153.61	130.37	135.71
Denmark (34)	242.37	+0.8	218.64	210.97	+0.9	0.99	240.40	217.26	209.09	260.82	236.69	180.32
Finland (26)	131.32	−0.8	118.47	109.57	−0.7	2.49	132.32	119.58	110.31	152.29	129.99	152.84
France (125)	162.74	+0.6	146.80	144.04	+0.7	2.82	161.83	146.26	143.05	166.43	141.69	119.06
West Germany (93)	129.14	+1.2	116.49	112.92	+1.3	1.95	127.60	115.32	111.44	137.71	122.05	95.75
Hong Kong (46)	122.53	+0.5	110.53	122.54	+0.5	5.08	121.95	110.21	121.97	126.90	112.94	133.81
Ireland (17)	172.72	−0.3	155.81	152.63	−0.3	2.82	173.32	156.63	153.06	198.57	172.72	147.66
Italy (96)	99.58	−0.2	89.83	91.66	+0.0	2.50	99.75	90.15	91.70	103.73	91.65	81.01
Japan (454)	138.22	+1.8	124.69	138.31	+1.5	0.60	135.74	122.67	136.30	197.26	124.40	189.68
Malaysia (35)	204.15	−0.6	184.17	213.27	−0.8	2.54	205.48	185.70	214.90	245.32	204.15	160.70
Mexico (13)	406.50	−0.1	366.70	1251.11	+0.0	0.41	406.86	367.70	1251.11	412.02	324.53	182.34
Netherland (43)	136.17	+0.5	122.84	117.56	+0.6	4.79	135.56	122.51	116.88	145.66	130.43	119.06
New Zealand (17)	60.25	+1.1	54.35	56.03	+0.8	7.42	59.57	53.83	55.59	75.36	59.57	72.04
Norway (23)	224.31	+1.9	202.35	198.74	+1.9	1.56	220.07	198.89	195.05	245.90	202.34	186.26
Singapore (25)	181.96	+0.4	164.15	157.14	+0.4	1.92	181.21	163.77	156.58	199.38	179.70	157.48
South Africa (60)	177.29	+0.6	159.94	157.21	+0.6	3.75	176.31	159.34	156.34	251.39	173.80	138.42
Spain (42)	152.05	+0.3	137.17	122.05	+0.2	4.35	151.61	137.01	121.80	165.19	132.84	153.29
Sweden (35)	185.94	+0.2	167.74	167.98	+0.2	2.40	185.59	167.73	167.80	206.95	173.89	157.98
Switzerland (65)	90.43	+0.7	81.57	81.57	+0.8	2.54	89.78	81.14	80.96	99.12	88.75	74.41
United Kingdom (306)	142.24	+1.0	128.32	128.32	+0.8	6.15	140.84	127.29	127.29	164.31	136.87	146.97
USA (537)	135.22	+0.7	121.98	135.22	+0.7	3.64	134.35	121.42	134.35	145.40	130.61	125.48
Europe (985)	137.29	+0.8	123.85	121.23	+0.7	3.68	136.27	123.15	120.33	146.66	135.57	119.44
Nordic (118)	186.71	+0.6	168.43	159.19	+0.6	1.75	185.59	167.73	158.17	201.89	185.01	164.82
Pacific Basin (660)	137.20	+1.8	123.76	136.56	+1.4	0.93	134.77	121.80	134.82	192.75	124.63	185.16
Euro−Pacific (1645)	137.59	+1.4	124.12	130.66	+1.2	2.04	135.73	122.66	129.38	174.18	130.25	158.89
North America (657)	134.67	+0.6	121.66	133.60	+0.6	3.64	134.03	121.13	132.75	145.78	131.02	126.00
Europe Ex. UK (679)	132.31	+0.6	119.35	116.27	+0.7	2.81	131.51	118.85	115.45	136.21	124.81	102.32
Pacific Ex. Japan (206)	124.29	+1.4	112.12	113.47	+1.0	5.33	122.53	110.74	112.34	139.32	122.53	131.00
World Ex. US (1838)	137.90	+1.3	124.40	130.75	+1.1	2.11	136.10	123.00	129.29	173.77	131.20	157.89
World Ex. UK (2069)	135.29	+1.1	122.04	132.54	+1.0	2.37	133.81	120.93	131.25	162.00	130.80	145.08
World Ex. So. Af. (2315)	135.64	+1.1	122.36	131.91	+1.0	2.62	134.17	121.28	130.65	181.84	131.95	145.26
World Ex. Japan (1921)	136.04	+0.7	122.72	123.08	+0.7	3.71	135.09	122.09	120.18	145.52	134.62	123.96
The World Index (2375)	135.69	+1.1	122.59	132.09	+1.0	2.83	134.43	121.49	130.83	162.05	132.25	145.22

Constituent change 2/5/90: Deletion: Alcatel STK (Norway). Spanish (Madrid) market closed May 2.

SECTION III

FINANCIAL TIMES SURVEY

British pension funds have been fattened up by a decade in which the average annual return on investments far outstripped average inflation of 6.9 per cent. Barry Riley analyses the success of strategies during the 1980s and asks: Can it possibly last?

From pluses to minuses

PENSION FUND trustees looking at their quarterly investment returns for the first three months of 1990 will find that the report features something that for more than a decade has come to seem quite unusual: a minus sign.

However, such trustees will have taken on board that individual quarterly returns are not to be taken very seriously. Moreover, British pension funds have been fattened up by one of the best years for investment ever known. The typical return was a little over 30 per cent in 1989, crowning what turned out to be a brilliant decade of the 1980s.

Over the 10 years, the average annual return was about 19.5 per cent, which compared handsomely with average inflation of 6.9 per cent and an average annual increase in pay of 9.5 per cent (the latter being the closest thing to a target return for the normal pension fund with benefits linked to final salaries).

A 10 per cent margin over earnings growth is astonishing on the basis of historical experience. In the 1970s pension fund investment returns underperformed pay inflation by about 6 per cent a year, which left pension schemes in something of a financial mess.

Figures compiled by the WM Company, which has operated a performance measurement service since the mid-1970s, show that in 1980 the new money flowing into pension funds amounted to 19 per cent of their initial value, highlighting the large size of contributions by companies as they struggled to keep their battered schemes afloat. By 1989 it was only 5 per cent, corresponding roughly to investment income. Many companies have declared extended contribution holidays for themselves, which is a tribute to the success of investment strategies during the 1980s.

But can it possibly last? The real return (gross dividend plus capital gains minus inflation) on UK equities was 6 per cent in the 1960s, minus 1 per cent in the 1970s and 13 per cent in the 1980s. That is a highly erratic sequence.

The consulting actuaries who value pension schemes are faced with difficult decisions. If they recommend contribution levels based upon very long-term rates of return they will be accused by companies (and the Inland Revenue) of living in the past and encouraging excessive fund growth.

Pension Fund Investment

If, on the other hand, they assume that recent high rates of return will continue through the 1990s there could be a nasty crunch if future investment conditions turn out to be more typical of those experienced in the more distant past.

Recent performance has not, however, been merely a question of living off the fat of the land. Investment managers will claim, with some justice, that they have added value to the returns from the underlying markets. Back in 1979, for instance, sterling bonds (mainly gilt-edged) accounted for 28 per cent of the average pension fund, and UK property for another 19 per cent according to WM. These turned out to produce relatively poor real returns in the 1980s of about 8 and 4 per cent respectively.

But by the end of the decade gilts comprised only 6 per cent of portfolios and property some 9 per cent. Indeed, the rival Caps measurement service, which concentrates on schemes managed externally by aggressive investment management firms, showed only 4 per cent in fixed income gilts and 3 per cent in property at the close of 1989.

Still, there is scope for arguing about the extent to which such trends were active or passive. The drop in the proportion of gilts, for instance, reflected in part the decision of the UK Government to buy back its bonds on a massive scale. Property has been bid away by the corporate sector and international investors. But it is approaching a fascinating turning point, with vast volumes of bank-financed developments beginning to overhang the market. The institutions, including pension funds, will surely become big investors when they judge the buying opportunity has arrived.

Meantime, fund managers have successfully chased the consistently higher returns available from equities, both in the UK and overseas. UK equity exposure rose from 46 to 53 per cent over the decade, according to WM, and the overseas equity content, limited by exchange controls up to 1979, rose more dramatically from 7 to 21 per cent.

Indeed, the typical externally-managed fund seems to have had a total equity content of about 83 per cent at the end of 1989, and if you include index-linked gilts and property, the total proportion in "real" assets was close to 90 per cent.

That is rather different from the position in the US where pension funds are run more conservatively. According to a recent survey by consultants Greenwich Associates of the 2,100 largest pension funds and endowments in America, worth $1,800bn, equities accounted for some 45 per cent of the value of portfolios, and bonds represented more than a third.

Inflation has been lower in the US, and there is a greater proportion of defined contribution plans (money purchase in UK parlance) rather than defined benefit schemes with a final salary link. But US pension plans have been especially slow to diversify their investments internationally, and it looks as though British pension funds have secured much better returns in the 1980s.

The move overseas has not been accomplished with complete conviction, however. Shortcomings in the ability of London investment managers to handle global portfolios have been revealed, especially in their capacity to keep up with the stock market indices in Japan, the US and elsewhere.

During the 1980s, according to WM, UK pension portfolios underperformed the US market by 3.6 per cent a year and the Tokyo market by 2.5 per cent a year. But in the UK market the picture was much better: against an index return of 23.6 per cent a year, pension funds recorded 23.2 per cent, which is the kind of gap to be expected given that real funds bear costs which an index does not have to.

As it happened, 1989 was a good year for UK pension funds overseas, largely because of favourable stock selection in Japan. All the same, the general failure, in the longer run, of conventional balanced investment managers to beat the stock market indices either at home or abroad has provided a powerful marketing pitch for index fund promoters.

As a consequence there is an increasing interest by pension schemes in the establishment of core index portfolios, usually supplemented by specialist satellite portfolios which are intended to beat certain specific benchmarks. Specialist managers are required to work within much stricter guidelines than balanced managers.

There sometimes appears to be much more talk about such strategies than there is action. But something like 8 per cent of UK pension fund money may now be invested in formally indexed funds (with a further small proportion in less rigorously constructed core portfolios). About 2 or 3 per cent of funds also have specialist managers, which does not seem much, but there is a lot of marketing activity in this area.

The 90 per cent of money which is still in the hands of balanced managers could be quite rapidly eroded if the pattern of the US pensions industry is repeated. In the US more than $250bn of pension plan money is now indexed, some of it in the fixed income market as well as in equities. Indexed equity assets account for about a fifth of the portfolios of the top 200 defined benefit plans in the US, and getting on for half of their equity investments.

Indexing has been greatly encouraged by the conditions of the 1980s. When markets are buoyant it is very difficult for active managers to beat the indices, and any UK pension fund which had put the whole of its money into an equity index fund 10 years ago would have handsomely outperformed all its peers.

This could have been only a theoretical exercise for the 1980s, because index funds scarcely existed a decade ago, but it is an option for the 1990s. However, it is dangerous to extrapolate from past experience. Balanced managers can use skills such as market timing and allocation between different kinds of assets. These talents will offer the only way of making money if the returns on the equity indices continue to show minus signs for any length of time.

In this survey

Illustration .... *Mark Thomas*
Editorial production .... *Roy Terry*

Leading pension fund managers

	Value of segregated funds at December 31				Number of pension fund clients		
	1989 (£m)	1988 (£m)	% change	Total funds £bn 1989*	1989	1988	% change
MERCURY ASSET MANAGEMENT	23,616	17,754	49.9	33.82	580	553	4.8
PHILLIPS & DREW FUND MNGT**/***	14,242	10,620	34.1	16.26	196	185	5.9
BARCLAYS DE ZOETE WEDD INV MNGT	13,600	9,600	41.7	19.80	128	118	8.
SCHRODER INVESTMENT MNGT***	11,800	8,700	35.6	22.20	133	130	2.3
COUNTY NATWEST INVEST MNGT****	9,464	7,840	20.7	12.29	106	122	−13.1
ROBERT FLEMING ASSET MNGT	9,295	9,240	0.6	21.10	143	147	−3.4
PRUDENTIAL PORTFOLIO MANAGERS†	9,100	6,100	49.2	34.60	56	39	43.6
MORGAN GRENFELL INVEST MNGT	6,453	5,243	23.1	17.16	96	98	−2.0
HENDERSON PENSION FUND MNGT††	5,464	4,917	11.1	8.83	168	195	−13.8
BARING INVEST MNGT	5,229	4,264	22.6	6.78	116	109	6.4
GARTMORE INVESTMENT MNGT	4,447	2,700	64.7	6.72	114	105	8.6
LLOYDS INVESTMENT MNGT**	4,333	3,768	15.0	6.40	54	51	5.9
MIM	3,365	2,616	28.6	9.89	132	125	5.6
MIDLAND MONTAGU ASSET MNGT***	3,121	2,396	30.3	4.48	9	12	−25.0
N.M.ROTHSCHILD ASSET MNGT	2,700	2,700	0.0	8.07	75	81	−7.4
MURRAY JOHNSTONE PENSION MNGT	2,666	2,100	26.9	4.70	55	57	−3.
KLEINWORT BENSON INVEST MNGT**	2,641	2,324	12.8	9.24	68	74	−8.
CAZENOVE FUND MANAGEMENT	2,630	1,770	48.6	5.50	60	59	1.7
HAMBROS BANK**/***	2,500	2,000	25.0	4.50	48	48	0.0
QUEEN ANNE'S GATE ASSET MNGT♠	2,300	1,800	27.7	2.30	9	1	NA
LAZARD INVESTORS***	2,000	1,800	11.1	4.10	36	34	5.9
CAPITAL HOUSE INVESTMENT MNGT	1,880	1,500	25.3	2.70	50	46	8.7
EAGLE STAR	1,759	1,466	19.7	11.80	23	22	4.5
HILL SAMUEL INVESTMENT MNGT**/***	1,617	1,505	7.4	16.46	36	33	[illegible]
BAILLIE GIFFORD & CO INVST MNGT	1,576	1,042	51.3	3.49	38	35	8.6

Research by Jan Sohling

* Total funds managed by group, including non-pension funds
** 1988 data changed by the fund manager
*** 1988 number of clients changed by the fund manager
**** Of the net 16 clients lost, a total of five did not meet minimum fund size requirements
† Includes Prudential Staff Pension Fund
†† These figures exclude the Henderson Pensions Managed Fund which is valued at £77m and has 44 clients
♠ In September 1989 reconstructed as an investment management company to manage pension funds of the former Water Authorities; prior to September 1989, Queen Anne's Gate managed £1.8bn of the Water Authorities' superannuation fund; percentage increase in number of clients is therefore not applicable.

Barry Riley analyses the criteria for selecting managers

League tables may be relegated

"PAST performance has no relevance in identifying future performance."

With this conclusion, which was based upon 50 investment management companies' house returns going back a decade, the consultancy firm Mercer Fraser recently tossed a bombshell into the manager selection process.

It is not the only pensions consultancy to have become embarrassed at the excessive emphasis upon league tables of short-term performance. It has become almost impossible for managers to win new mandates without an impressive performance over the previous two or three years.

Conversely, managers with a poor recent performance almost never pick up new business, and may well lose a lot of what they already have on their books.

Mercer Fraser is not saying, of course, that all investment managers are likely to perform equally in the long run. But there is a cyclical element to the performance of many firms, so that after a bad patch they are quite likely to bounce back. It could be wrong to sack them at the bottom, as in fact often happens.

A more subtle problem is that success can easily lead to problems because good performance is unlikely to be repeatable across ever-larger funds. What may work on a small scale, with a restricted team of people, may fail when large volumes of new business are taken on.

In the US some pension fund managers have the self-restraint to close their books to new business when they feel they are at full capacity, perhaps raising fees to compensate for the opportunity cost. But in the UK it seems to be very hard to prevent the marketing director from making the most of his opportunity.


Patrick Gifford (left) and Tim Gardener

In the UK a lot of new pension fund business was taken on by managers such as Robert Fleming and Henderson in the mid-1980s. Both are long-established, high quality houses. But many of their new clients (and some of their old ones) have been disappointed by their results in the late 1980s. These managers have been losing business again on a significant scale.

According to Patrick Gifford, chairman of Fleming International Investment Management: "We used a very good performance record in the first half of the 1980s to take on more new business than we could comfortably accommodate."

At Henderson there has been a painful reassessment of internal structure. "We don't believe that large investment management teams work," admits Robin Hindle-Fisher, chief executive of Henderson's pensions side.

Moves to concentrate investment decision-taking among fewer people appear to be working, however, and Henderson's funds had a much better year in 1989.

The manager most at risk from growing pains must be Gartmore, which has come an awful long way in a short space of time on the back of excellent investment performance, increasing its pension funds under management five-fold in three years. The test will now be whether Gartmore can avoid a hangover of the kind suffered by Henderson.

In general, the quality of organisational management at City financial services firms is not high: they tend to rely on individual flair rather than on solid structures. Moreover, there is a basic instability of ownership in many cases, which must cause anxiety among many of their clients.

Gartmore has just been sold to Banque Indosuez, although in view of the financial disaster which has overtaken its previous owner, British & Commonwealth, the change may be viewed with some relief by many clients. Still, the deal has distracted the attention of Gartmore's executives for a number of months.

Elsewhere, Morgan Grenfell has been taken over by Deutsche Bank, with imponderable implications for the corporate culture. Stresses involved in ownership of British fund managers by foreign banks came to the fore earlier this year at Phillips & Drew Fund Management. This was one of the great success stories of the 1980s, reaching the number two spot in terms of pension fund money under management. But its chairman, Keith Percy, resigned after disagreements with his bosses at Union Bank of Switzerland. Ironically, he will shortly take up the position of chief executive of Morgan Grenfell Asset Management, swapping a Swiss owner for a German one.

Change in corporate control is a particular hazard in a "people" business such as fund management. At the smaller end of the size league, Ivory & Sime, once the leading pension fund "boutique", but recently a sadly faded force in this field, has suffered yet another exodus of managers, while Globe Morley is caught up in the bid by the British Coal pension funds for its parent Globe Investment Trust.

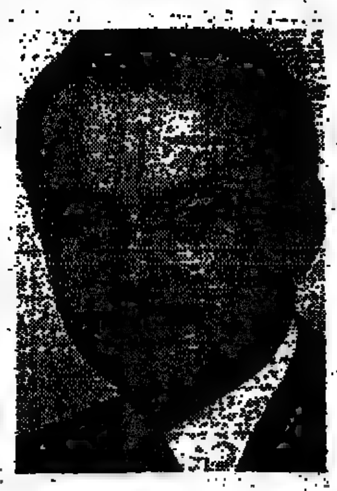
The major City merchant banks used to offer a safe, traditional balanced management service but although Mercury Asset Management has continued to be an impressive flag bearer for this type of operation, a number of the smaller merchant banks such as Kleinwort, Rothschild, Hambros and Lazard have been going through a generally difficult time in pension fund management. Business used to be won through personal contacts with company bosses, but nowadays the selection process is open and competitive, which has weakened the advantages of merchant banks.

There has been much more success, however, at Schroders which is one of the very few long-established merchant banks to have achieved top quartile performance over 10 years. Another strong showing has been achieved by Baring, while Robert Fleming remains big, although it has been going through a bad patch, not helped by the fact that last year was bad for managers adopting its style of value-based stock selection in UK equities.

What may work with a restricted team of people, may fail when large volumes of new business are taken on

Prudential remains the only life assurance company to make a strong showing in segregated pension funds. It retains a good five-year performance, and clients are impressed by the breadth of its research-based investment expertise. Elsewhere Scottish Widows has now passed the £1bn mark in segregated funds, and Scottish Amicable remains important, although it had a difficult time last year, partly because of its small company orientation in stock selection.

The clearing banks are making an impression in index funds and other quantitative products, but they do not really stand out in active management.



Paul Haines

In 1989, some of the best investment performances were in fact produced by the smaller "boutiques" such as Martin Currie, Newton and Fidelity (the latter is, of course, big in unit trusts but is still not in the top 25 in terms of volume of segregated funds under management). Last year paid off handsomely for managers like Fidelity who were heavily (as much as 98 per cent) into equities and within that were highly committed overseas. But these high-risk strategies could conceivably cause the pendulum to swing against the boutiques in more difficult circumstances, unless they prove to be very nimble-footed.

In any case, the consultants who advise trustees on manager selection are becoming much more cautious about becoming involved in a pure numbers game. According to Paul Haines of Noble Lowndes: "If an assessment of management is based solely on league tables then it is inevitable that you will end up appointing managers who will turn out to be disappointing."

On the other hand, he adds, taking a cautious line on the relevance of past performance "is not the same as saying there is no correlation".

Tim Gardener, head of the investment section of Mercer Fraser, has mapped out what is claimed to be a fresh approach to manager research. This is queried by other consultants, who say they have always paid attention to a variety of factors in assessing managers. However, Mr Gardener insists there is a need to "try and learn from the mistakes that were made in the 1980s".

In future, Mercer Fraser will be placing much more emphasis on a whole variety of factors including quality of personnel, internal management and philosophical approach. But he admits: "We are only going to get seven or eight out of 10 of our decisions right."

If the consultants mean what they say, in the 1990s the top quartile of the performance league tables may no longer be such an important target for managers to aim at.

Tokyo stock exchange: the fall in the Nikkei index poses pressing questions for investors Ashley Ashwood

For British investors, 1989 was the year of the European equity, says **Nick Bunker**

Germany the star performer

FOR BRITISH fund managers, 1989 was, or at any rate should have been, the year of the European equity. Not only did the pound drop in the course of the 12 months by nearly 18 per cent against the D-Mark, and by only slightly less against the French franc, this was also happening at a time of strong corporate earnings increases in both those countries, against a background of Western European economic growth outstripping that of the US for the first time since 1982.

The result was the remarkable 53.1 per cent median investment return UK pension funds earned on European equities last year, according to Combined Actuarial Performance Services (CAPS).

Nor was this simply a function of the upward spurt in German equities seen after the fall of the Berlin Wall last November.

On the basis of market indices, rather than the CAPS universe of pension funds, European equities in general showed a 41.7 per cent return for the year as a whole. Within that, West Germany was indeed the star performer, with a return to sterling investors of 60.8 per cent; but the French equity market ran it pretty close, with a return of 55.9 per cent.

When the effect of this was combined with the strong performance of US equities last year, and the 23.4 per cent return on Japanese shares, the result was to make overseas equities in general the second-best performing asset category in 1989.

So, at first sight it looks unfortunate that UK pension funds went into 1989 with only 19 per cent of their money invested in overseas assets. This was the second lowest proportion since 1985, and still a reflection of the switch many funds made out of overseas securities after the 1987 crash.

By the end of last year, though, the picture had altered dramatically. Overseas assets have climbed to 27 per cent of the average portfolio measured by CAPS.

The result was especially striking for the exposure of UK pension funds to European shares. At the start of last year, on average only 5 per cent of their assets were allocated to European equities. By December 31, the proportion had doubled.

Typically, pension fund managers put little new money into UK straight or index-linked gilts in 1989, and went light in Japanese equities, diverting their new cash flow more towards the European markets.

According to figures from the WM Company almost 50 per cent of cash flow was allocated to continental Europe. Most striking of all, that means, according to CAPS, that by the end of the year "the continental European market (had) become the main area of overseas investment for UK pension funds", ahead of both the US and Japan.

So much is history. What is much less clear is the appropriate strategy over the next 12 months – especially in respect of Japanese equities, where the average UK pension asset allocation is about five per cent.

As regards Japan, the Japanese question looks to be the most pressing, after the near 10,000-point, or 24 per cent, fall in the Nikkei stock average between January and late April.

This followed 12 years in which the Japanese stock market had risen continuously. Was this simply a long overdue correction, of a market which at the beginning of 1990 was trading on a p/e of 60? Or was it saying something more sinister about the prospects for investment in Japan in the coming decade?

The bull case for Japanese shares is that GNP is still forecast to go up by 4 per cent in 1990; and that while the money supply is growing at more than 8.75 per cent, inflation remains manageable, not least because capacity utilisation is falling following the booming capital investment of the last few years.

There is a convincing bear case, however. Not only has the yen become one of the developed world's weakest currencies. It looks very much as though the conjunction of factors which underpinned the long bull market – the strong yen, falling oil prices, steadily declining interest rates and minimal inflation – is ceasing to apply. Not that this makes Japan a bad place to invest in equities in 1990s, just a more normal one.

US equities – home for about 6 per cent of UK pension fund assets, according to the CAPS survey – is a less urgent matter in 1990. True, apart from encouraging news recently from IBM, there are signs of flat corporate earnings growth this year, coming after 16 quarters of consecutive increases from 1986 onwards.

Given high and rising short-term interest rates in West Germany in particular, it is hard to see the authorities in the US easing monetary policy soon.

This means – barring a precipitate collapse in sterling – it is also hard to see US stocks achieving again the 45.4 per cent median return they showed for UK pension funds in 1989.

But in view of the importance it has come to occupy for UK fund managers, the destiny of Europe is crucial. Centrally, by late April the West German market had retreated significantly from the peaks of valuation it saw in late March, when the FAZ Index had reached 830.9 points, or 35 per cent above its level before the Berlin Wall came down.

But that still leaves German equities looking exposed to further corrections, if the D-Mark bond market were to collapse again through the 9 per cent yield barrier as a result of concerns about the inflationary potential of reunification. At bottom, though, it is hard not to see European equities as the most attractive investment prospect for 1990, given that GNP growth Europewide is likely to be average about 3 per cent this year.

In some markets – France especially – there is also the prospect of stronger near-term earnings growth than in 1989, and of increasing mergers and acquisition activity.

UK EQUITIES

Striking sign of commitment

IF THE CITY needed an unequivocal sign of the importance pension fund managers give to UK ordinary shares, it received an unmistakable one on Friday, April 20.

The £1.03bn offer by the British Coal funds for Globe Investment Trust was not just another takeover bid. At a time when the stock market is still looking shaky, after dropping 10 per cent since January 1, the bid also comes as a striking reminder of just how strong a commitment pension funds now have to UK equities. The critical question for other investment managers though is whether British Coal has its timing right in putting such a large chunk of money into the market when the UK is still beset by so many macro-economic and political uncertainties. And some may argue, too, that UK equities are unlikely to show as strong a relative performance as they have done since 1976.

What is indisputable is the scale of the long-term benefits funds have reaped from UK equity investment in the 1980s. Last year, according to the Combined Actuarial Performance Service (CAPS), UK equities showed a total return of 35.5 per cent, ranking them third-best performing asset category behind European and US equities. True, nearly half that performance – 17.4 per cent – came in the first three months of the year, and in 1988 UK equities ranked behind UK and overseas property, overseas equities and index-linked gilts.

What is indisputable is the scale of the long-term benefits funds have reaped from UK equities

Looked at more long-term though, UK equities have outperformed all other asset groups on a five, six and nine-year view, and ranked second when using three, four, seven and eight-year time horizons. Most significant of all, for funds with sterling liabilities pegged to increases in wages and salaries, only twice in the last decade – in the British economy's boom years of 1987 and 1988 – have UK shares failed to outperform the other major inflation-proof UK asset category, real estate.

Hence the view of one leading fund manager, Robert Fleming's Mr Peter Seabrook, that a well-balanced portfolio should be "between 50 and 70 per cent invested in UK shares." In the case of the 131 pension funds Fleming manages in whole or in part, its recommended UK equity allocation has gone up from 57 per cent in mid-1985, to about 63 per cent now. Nor is this far out of line with the views of other fund managers. According to CAPS, at end-1989 the funds it examines had 57 per cent of their portfolios in UK equities, still a historic high, compared with an average percentage allocation in the low forties in 1982.

There are three factors, though, which complicate what looks, at first sight, like a relatively simple picture. The first, short-term issue surrounds the prospects for 1990. By late April, with retail price inflation poised to move above 10 per cent, wage demands showing little sign of moderation, and receding prospects of early base-rate cuts, the historic dividend yield on the FTA-Allshare Index had risen to 5 per cent.

Yields at that level "are starting to represent good value," says Fleming's Mr Seabrook – a view presumably endorsed by the British Coal. In addition, institutions are still very liquid. In the third quarter of 1989, for example, UK institutions were net sellers of UK equities to the tune of £300m, and though they put £1.1bn into the market in the fourth quarter, that was still only just over a third of the corresponding figure in the final three months of 1988.

The snag is that at a 5 per cent yield, the FT-SE 100 Index would have to rise 10 per cent over 12 months to beat the return on cash. That target could easily be missed, with corporate earnings growth slowing to perhaps 5 per cent this year, the possibility not only of a further rise in base rates but of more corporate disaster stories such as British & Commonwealth, and the chances of further cash calls following those from Rank Organisation, Reckitt & Colman and Rosehaugh. The real bears remember, too, that in 1974 yields went to 12.7 per cent.

The second factor is the clearer emergence of European equities as a competing asset category. To the extent that pension funds switched out of gilts and UK equities in 1989, European shares appear to have been the beneficiaries, with managers nudging up their asset allocation in that category towards the 10 per cent mark. True, European equity markets are as sensitive to rising bond yields as are those in the UK. But the 53.1 per cent return the CAPS figures show for European equities in 1989 means that a pension fund manager went underweight there at his or her peril.

A third issue is the striking evidence in 1989 of an increase in shareholder activism in the UK. In several major incidents – the most visible being the £13bn Hoylake bid for BAT Industries, and the attempted restructuring of British Land – institutional investors played a significant role in influencing management decisions.

In the BAT case, for example, it is an open secret that leading institutions including Legal & General and PosTel did not hesitate to let BAT know that once the Hoylake bid had been launched, the company could never be the same again and that it had to start its own "unbundling" process. But what appears to be happening is not so much that institutions are becoming more militant, but that they are being confronted with bigger, more complex transactions which – like the debt-financed Hoylake bid – appeared to try to rewrite the rules of the investment game.

"We weren't going to let Hoylake rip up BAT, take a big turn, and give us in exchange some funny illiquid loan stocks which have no place in our portfolio," says one leading fund manager. What seems inevitable is that pension funds are going to have to get used to devoting more time to scrutinising company transactions and taking a stand when shareholder interests seem to be threatened.

Nick Bunker

PENSION FUND INVESTMENT 4

Michiyo Nakamoto on the slow development of pension funds in Japan, where life expectancy is the longest in the world

Legal changes usher in a new era of competition

FOR A nation that boasts the longest average life expectancy in the world, Japan has been remarkably slow in developing pension funds. The total amount of corporate pension funds, for example, is only Y30,000bn.

Also, management of pension funds has been strictly regulated by government and has lagged far behind developments in comparable societies in the West. But with the introduction just this month of long-awaited legal changes, the potentially lucrative market for corporate pension funds is set to enter a new era of competition.

With the turn of the fiscal calendar in April, asset management companies have been allowed into a section of the corporate pension fund market that has been the sole preserve of a handful of trust banks and life insurance companies. The change will bring about 140 new contenders for new corporate pension fund business compared with only 17 trust banks – including nine that are foreign-affiliated – and 21 life insurance companies that were authorised to manage corporate pension funds under the old rules.

Typically, this liberalisation is not happening in a big bang sort of way, but cautiously, step by step. Newcomers are only being allowed to manage new money of employees pension funds that are at least eight years old. The new money that can be managed by investment fund managers must be in funds with at least Y1bn in assets and should not exceed one-third of the total assets. The allocation of assets by fund managers will continue to be regulated by the Ministry of Finance which dictates asset mix guidelines, but these were partially relaxed in April.

In spite of these regulations, the rapid growth of the pension fund market, as the greying population in Japan continues to increase, means that the opportunities are immense.

The Japanese have a longer life expectancy than any other people in the world. In 1988, the life expectancy at birth of Japanese males was 75.5 years, while it was 81.3 years for females. This compared with a life expectancy of 71.5 years for men and 77.7 years for women in the UK in a somewhat earlier study there.

Furthermore, in spite of their longevity, it is only recently that the Japanese have become seriously alarmed by the problems facing their greying society and there is still plenty of scope for new pension business. Only a third of the 29.9m individuals who belong to the government-sponsored welfare pension scheme also belong to a corporate pension plan, says an official at the Pension Fund Association's Pension Investment Department. Only 9 per cent of the 1.2m companies that qualify to establish a corporate pension fund, have done so.

The rapid growth of the pension fund market means that opportunities are immense

Yasuda Trust and Banking, one of the bigger players in the field, expects the Japanese pension fund market to grow at an annual rate of 15 to 20 per cent for the next two decades. Last year over 100 new corporate pension funds were added to the 1,400 that existed.

Nobody, including the asset management companies, expects much of the new business to go to the newcomers. Japanese pension fund sponsors have traditionally allocated management business to trust banks and life insurance companies with which they have strong and extensive ties, ranging from mutual shareholdings to straightforward business transactions. Industry insiders tell the story of a fund sponsor that kept as its fund manager, a company with a particularly bad performance record because it had supplied them with land it needed for a particular business.

Japanese asset management companies, most of which are affiliated with the large securities firms and well-established banks, have the advantage, at least, of being able to use the ties of their parent companies. Foreign firms, however, will face substantial obstacles.

"We don't think we'll achieve instant overnight success," says Mr Clifford Shaw, director and general manager of Warburg Asset Management in Japan, "but we already have our first client and we couldn't really ask for a better start."

Warburgs, together with Fidelity International and Jardine Fleming Investment Advisors, became the first foreign asset management companies to be chosen to manage a portion of the Pension Fund Association's funds.

Japan Bankers Trust, Barclays Trust and Banking and J.P. Morgan Trust Bank, will also manage a portion of its funds.

While it will be difficult for the newcomers, particularly the foreigners, to come in between the companies and the trust banks and life insurance companies, the Pension Fund Association's initiative will give at least a handful of foreigners the chance to prove their investment skills.

"If the results of foreign firms turn out to be good," says Mr Andrew Dalton, president of Warburg Asset Management in Japan, "there will be a momentum for further and swifter change and it will be very difficult to resist that momentum."

There are some signs that Japanese pension fund sponsors have begun to seek higher returns for their investments.

"From now on, performance will be the major criterion for the choice of manager," says the official at the Pension Fund Association. Performance rankings of the trust banks began to be published just a few years ago.

There are signs that pension fund sponsors have begun to seek higher returns for their investments

The Japan Bond Research Institute has started to publish detailed analyses of fund managers while a number of consultants which advise sponsors on fund management performance have opened shop recently in Tokyo.

None the less, the doors to pension fund business are not going to fling open all of a sudden. "Even among the sympathetic companies it's going to take time," says Mr Brian Matthews, president of Jardine Fleming Investment Advisors in Japan.

But the phenomenal growth rate of Japanese pension fund market makes breaking into the business "an extrmely attractive goal of ours," he adds.

For the asset management companies, their ability to break into the pension fund market will depend mostly on their ability to provide evidence of superior performance.

This may not be too difficult especially for the foreign firms used to more stringent demands on performance in their home countries.

In Japan the level of contributions by individuals and companies is much higher than the level of investment returns, whereas the opposite is true in the UK.

Japan's trust banks and life insurance companies have not exactly had a sparkling track record to show for themselves, mainly because they have had to do little more than beat the 5.5 per cent annual target on realised profits.

"Everybody has been paying out much the same," says Mr Stuart Matthews, financial analyst at Barclays de Zoete Wedd Securities in Tokyo.

The new element of competition introduced with the opening of the market should change all of this while the relaxation of asset mix regulations under the new laws, is likely to lead to greater differences in performance.

Under the new rules up to 50 per cent can be invested in equities or foreign securities or property, against 30 per cent under former rules. The remaining 50 per cent must be invested in principal secured assets.

The threat of competition has led the trust banks and life insurance companies to come out with new forms of pension fund investment schemes. Funds over eight years old with over Y50bn in assets, can manage new money in-house and Mr Dalton thinks foreign firms could be approached by individual companies to manage a portion of those funds in areas in which they have particular expertise, such as European equities.

CONTINENTAL EUROPE

First steps on a very long journey towards a single market

ATTENTION in Europe has been focused on the establishment of a single European market in 1992.

Although development is patchy, there are definite signs of movement in the formation of a single financial market, urged on by Sir Leon Brittan, the EC Competition Commissioner.

Under his direction, moves are now in train for a single market for pension funds, though as yet these represent the first steps in what is certain to be a very long journey.

In a recent speech in Brussels, Sir Leon Brittan set out the objectives for this single market as follows:

■ Full freedom of cross-border membership of supplementary pension schemes.

The fall in birth rates is leading to an ageing population with fewer employed people to support them

■ To ensure full freedom to provide the service of managing pension funds.

■ To open the possibility of creating a Community-wide pension fund.

Achievement of these objectives would open the door for UK fund management groups to market UK pension products, particularly individual pension contracts such as personal pensions, and to manage European institutional money.

However, there are a number of obstacles before these fund management opportunities can be realised to any great extent.

First, in most EC countries the vast majority of an individual's pension comes through the social security system.

Scope for supplementary pension provision by the private sector is often limited.

This is particularly so in countries such as France and Italy. The Netherlands is one country where supplementary provision is applied on a significant scale.

About a year or two ago, concern was being expresses in all leading European countries about the "Demographic Time Bomb" and its effects on the funding of social security systems.

Basically, the problem arises because the fall in the birth rate throughout Europe over the past decades is leading to an ageing population with fewer employed persons to support them.

And social security systems generally are financed on the "Pay-As-You-Go" system, with benefits paid from contribution income.

The combination of these two features is resulting in benefit costs rising dramatically, leading to steep rises in contributions required from the working population.

The standard answer put forward was to restrict social security provision and expand supplementary provision through the private sector operating on a pre-funding system.

Such a move to expand private-sector pension provision would open up investment opportunities for UK fund management groups, particularly global equity fund management.

However, like most problems not capable of a swift solution, the fears of the possible consequences have faded with time.

And other possible solutions are being considered, such as raising the retirement age – a solution not contemplated even a year ago.

Second, if supplementary provision is expanded, then in many EC countries this would most likely be done through insurance contracts from locally-based insurance companies.

Certain UK life companies are establishing themselves in the EC, particularly in Spain, because they consider there will be an expanding market for their life and their pension products and the accompanying investment management services.

The concept of self-administered private pension provision is not so widely accepted as in the UK.

And where it does operate, such as in West Germany, then it tends to be funded through book reserves, a pseudo form of Pay-As-You-Go, rather than pre-funded with a consequent need for investment management.

Other barriers to UK investment managers operating in Europe include the local taxation systems and local investment restrictions.

The International Committee of the National Association of Pension Funds feels that it is not possible to consider cross-border membership and pan-European pension funds until tax systems are harmonised – a pipedream at present.

Nevertheless, the NAPF feel that much could be done towards common financial arrangements if withholding and other taxes on the income from EC investments are abolished for all recognised pension funds in the EC.

And the association also feels that local investment restrictions need to be eliminated.

These factors do not mean that there are no opportunities in Europe for UK fund management, but that progress will be extremely slow – a sufficient reason for UK management groups to get established early in Europe.

The final barrier is the general attitude of Europeans towards equity investment. By and large, they tend to be risk adverse, favouring bond investment and adopting a conservative attitude towards equity investment.

The first and biggest task of UK investment managers is to sell the equity concept to European financial institutions and the investing public.

But, if this marketing exercise can be achieved, then it is more straightforward for the UK managers to sell their global equity investment expertise, because of the relative inexperience in this field of European investment institutions.

The implementation of the UCITS (Undertakings for Collective Investments in Transferable Securities) has provided UK investment management firms with the opportunity to offer retail fund management services and products.

The general feeling among UK investment management companies is that it is going to be more productive offering retail investment services than trying to break directly into the institutional market.

A retail base can be exploited for a subsequent launch into institutional investment services.

Other UK investment managers, such as Henderson Administration, have also established operations in other European countries, particularly Holland.

This country has a financial services operation with some resemblance to the UK situation, including private company pension provision.

Henderson is now investing substantial sums in global equities on behalf of Dutch institutions.

The first task of UK investment managers is to sell the equity concept to European financial institutions

But it describes the progress of its other European operations as one of gentle expansion.

It will receive a tranche of money from an institution, usually a bank, for investment in equities.

But it has no idea whether the investment is on behalf of individuals, other institutions or both.

And it is highly likely that such a route will be the norm for investment in Europe rather than the investor, whether individual or corporate, dealing direct with the UK fund manager.

Eric Short

Karen Zagor investigates the expanding horizons in the US

Managers spreading their wings

THERE ARE signs that US pension fund managers are spreading their wings and expanding their horizons into international markets after many years of careful investments at home.

US pension plans are traditionally cautious investors. Typically, at least 30 per cent of their assets are in bonds, with a further 15 to 20 per cent in cash, mortgages and other fixed interest investments.

Considering what has happened to equity prices, it is hardly surprising that funds should reduce stock market holdings

According to the authoritative annual survey published by Pensions and Investment Age in January this year, the top 200 defined benefit corporate and public pension plans had an average of 45.1 per cent of assets invested in stocks at the end of September last year, with 37.8 per cent in bonds, 7.8 per cent in cash and 4.2 per cent in real estate equity. The rest was held in mortgages, guaranteed investment contracts and other fixed income securities.

The equity proportion showed a slight increase from the previous year, though less than might have been expected given the strength of the US stock market. Meanwhile bond allocations changed little.

Considering what has happened to equity prices over the past two years, with the mini stock-market crash hitting stocks last year almost exactly two years after the 1987 crash, it is hardly surprising that pension funds should choose to impose ceilings on their stock market holdings.

Yet pension funds are increasingly looking to overseas markets. Although foreign markets often move in tandem with the US, as seen on Black Monday in 1987, this has been less pronounced in recent months.

The Japanese market has been extremely weak but West German German equities have surged ahead.

Although this may have proved painful to those exposed to Tokyo, in principle these deviations confirm the value of international diversification.

Foreign investments are often viewed as another way of spreading risks, and US investors are increasingly looking abroad for the possibility of better risk-return relationships.

According to the Pension & Investment Age survey, funds in foreign holdings soared almost 48 per cent to $39.4bn in the 12-month period. Of this, equities represented $32.7bn, up 56 per cent from 1988, while foreign bond holdings increased just 5 per cent.

Foreign investments still totalled less than 3 per cent of the top 200 funds, however. There is still a long way to go before US pension funds are internationalised to the extent common in Europe or Japan.

During the 12-month period, at least six of the top 200 pension funds made initial foreign investments. Most of the first-time investors were public funds, such as the gargantuan $54bn California Public Employees Retirement System, which moved straight into the number two spot this year by investing $2.7bn overseas by the end of September.

The recent easing of a number of rules by the Securities and Exchange Commission promises to promote further foreign investments by pension funds.

The most significant change for US investors in Rule 144a is that the SEC has effectively lifted its restriction on holdings of private placements – formerly classified as illiquid securities – by mutual, pension and open-ended investment funds.

Previously, such investments were limited to about 10 per cent. Now, the board of each fund will decide what proportion of their portfolios will be devoted to private placements.

With enthusiasm dampened for US equity ownership, pension funds are increasingly looking to overseas markets

The potential for growth in international markets is enormous. When asked how large the market could be, Mr Jonathan Auerbach, chairman of Gresvale International, which specialises in international equities and is the first broker to sign up for the Portal system, answered: "How big is the world? We think that this is going to open up an extraordinary amount of business."

Another area of change this year is in real estate investment. In 1988, when fund managers started looking for alternatives to the manic-depressive volatility of equities, one of the areas where they expanded was real estate. However, in the past year the proportion of assets invested in real estate has fallen.

Given the overbuilt office markets in all large US cities and the overall decline in house building, it is hardly surprising the new-found popularity of real estate was short-lived.

Meanwhile, bonds remain the main alternative to equities for fund managers. While there is little question about the serious risks in using fixed interest securities and cash to match pensions liabilities tied to real earnings, there are two main reasons that fund managers are willing to invest more than half their funds in purely nominal assets.

The first is that many US corporate pension funds are very generously resourced, to the point of being overfunded in relation to their liabilities.

US pension management is closely linked to the sponsoring company's general treasury operations, and there are a number of techniques for bringing overfunded pension assets back into the corporate balance sheets. This is both widespread and respectable.

Regarding pension fund surpluses as general corporate resources, however, investing them in equities is viewed by some analysts as essentially equivalent to speculating with shareholders' funds.

Second, companies are able and increasingly willing to replace their "defined benefit plans," in which pensions are linked to employee salaries, with "defined contribution plans", where pensions depend directly on the performance of the underlying assets.

The recent easing of a number of rules by the Securities and Exchange Commission promises to promote foreign investments

The general trend in recent years has been towards defined contributions, with corporate sponsors using plan conversions as a means of recapturing for their shareholders the actuarial surpluses.

Last year, nevertheless, the assets of defined benefit plans among the top 200 pension funds grew by 20 per cent to $1,164bn from $972.6bn, according to Pensions and Investment Age.

Defined contribution plans grew 15 per cent to $265.3bn from $229.6bn. The greater buoyancy in value of the typical defined benefit plan's asset mix last year, with a greater equity content, was evidently the dominant factor.

Barry Riley examines concerns over the measurement of performance

Figures that obscure the picture

IN THE pension fund business it would seem that performance statistics can prove almost anything. Certainly, there is enough concern about the measurement of fund performance for the National Association of Pension Funds to have set up a special inquiry into the subject.

Only a minor part of the anxiety relates to the actual process of measurement of the figures, although there are various annoying technical differences between the main performance services. There is more of a debate about how the numbers are presented by fund managers, and still more about how they are used by trustees and their advisers.

Who measures pension funds? One of the big two specialists is WM, originally part of the Edinburgh stockbrokers Wood Mackenzie, but now metamorphosed into the World Markets company, under the ownership of the US wholesale banking group Bankers Trust. The other is Combined Actuarial Performance Services (Caps), the result of the pooling some years ago of the separate measurement services of actuarial consultants R. Watson, Mercer Fraser, Bacon & Woodrow and (more recently) Noble Lowndes.

In 1989, WM included 2,023 portfolios in its main service, worth £235bn in aggregate at the end of the year. It says these represented 77 per cent of the UK pension fund industry. Caps measured 1,524 funds worth £141bn.

There are a few other services, including those run by Wyatt and by Godwins, but these are small by comparison, and are more specialised.

The results of the two main services are not precisely similar. This is partly because of differences of coverage, with WM including several very large nationalised industry funds which tend to have a high property content (the WM funds held 9 per cent of assets in property at the end of 1989, against only 3 per cent for clients of Caps).

In 1989, the average WM measured fund showed a rate of return of 30.3 per cent while the median Caps fund returned 31.5 per cent. The lower property content in the typical Caps fund explains some of the variation: excluding property the returns were 31.6 and 32.0 per cent, respectively. There may also be some distortion from comparing a median and an average.

John Clamp: figures are sometimes misused

A further technical differentiation has, however, come to light because of the strange discrepancy in the measured rate of return on the FT-Actuaries All-Share Index, the conventional benchmark for UK equity performance.

It might be thought that the performance of the index was common ground, but this is not so. In 1989, the index rate of return was 35.5 per cent according to Caps but 36.1 per cent according to WM. The gap, which arises from differing treatment of received dividends, is highly significant for index fund managers, who aim to track the All-Share return very precisely.

It appears that any difference will be much smaller in 1990, because Caps has changed its rate of return formula in favour of the ex-dividend method used for several years by WM, although with various slight variations.

To an extent, these technical disputes will need to be addressed by the NAPF committee. This is headed by Mr Maurice Stonefrost, who is in charge of British Rail's pension scheme. The committee has a year-end reporting deadline, and it is intended that its conclusions will be considered at the NAPF's annual investment conference next February.

Various subjects are potentially on its agenda. For example, there are complaints from the industry that the time-weighted rate of return calculations may not always be sufficiently precise, and the assumptions underlying them may vary, so that individual funds may get the wrong impression when they compare themselves to the indices and the medians.

Also, it is alleged that the coverage of the two main services may be distorted by the selective withdrawal of poorly performing funds on a retrospective basis by fund managers on the grounds that they are untypical. This, it is said, leads to the phenomenon of "median drift" whereby the historical performance for a particular year appears to move up over a period.

Maurice Stonefrost (left) and Clive Gilchrist

This is part of a general problem that as more funds over time become specialised, or subject to various investment restrictions, it becomes more difficult to justify their inclusion in the overall "universe."

Out of this arises the problem that the marketing departments of fund management firms can be highly selective in choosing funds which will determine their "median" or "typical" performance.

It is not necessarily the fault of the measurement companies if their statistics are insufficiently robust to stand up to the test of high-pressure salesmanship. They are commercial organisations, and are not always in a strong position to tell their clients how to use the information they produce. But one task of the Stonefrost Committee is likely to be to seek ways of laying down consistent standards for the presentation of performance figures by managers.

Certainly there are jealousies within the pension fund industry which make performance figures highly sensitive, and indeed the NAPF has felt obliged to set the committee up on an independent basis. Some leading consultants are privately very upset at the whole idea of a public inquiry.

Yet Mr John Clamp, chief executive of Caps, is ready to admit that performance figures are sometimes misused by investment managers, clients and consultants.

He is happy to co-operate with the inquiry. "We positively welcome it. Anything that can be done to clear the haze and mist surrounding performance measurement is from our point of view to be welcomed," he says. Mr Gordon Bagot of WM also welcomes the investigation in principle.

In the wider world, the real significance of the Stonefrost Committee will probably come from its deliberations on the short-termism problem. Are managers assessed, and then hired and fired, on the basis of periods which are too short? If so, given the domination of the stock market by pension funds and other similar institutions, the misuse of performance measurement statistics may be seriously distorting the whole capital market by forcing managers to focus unduly on near term objectives.

Performance is conventionally measured on a quarterly basis. Nobody suggests that managers are hired and fired on such a timescale, but subtle pressures may be introduced. And certainly performance over a time-span of three to five years is highly influential in winning and losing business. Arguably even this is much too short a time horizon for judging the success or otherwise of pension funds.

"Trustees are supposed to be taking a sensible long-term view," says Mr Clive Gilchrist, chairman of the NAPF's investment committee. But he is concerned that, on top of the other pressures, the recent changes in accounting by companies for pension fund contributions, following the implementation of the accounting standard SSAP 24, will cause finance directors to seek to lift investment performance over the short run in order to increase earnings per share.

Quite a few different sectional interest groups within the pension fund industry will be waiting with keen interest to see what the Stonefrost Committee says.

Andrew Freeman discusses quantitative techniques

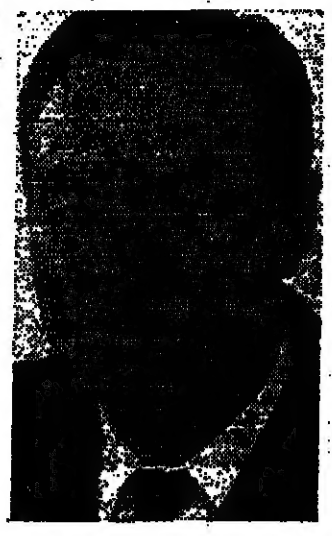
Off-putting black-box image played down

THE steady movement of pension funds into techniques of investment management which rely to some degree on quantitative analysis has continued over the past year. However, as the market becomes more sophisticated, specialists and traditonal fund managers are battling for control of the quantitative label.

The essence of quantitative fund management is its use of rigour and discipline to control risk in search of the best returns. Managers and consultants suggest that up to £10bn of new money in the UK alone has been invested in quantitative products over the past five years. The Edinburgh-based performance measurement group WM Company's figures show that UK equity index funds now total around £17bn. Barclays de Zoete Wedd Investment Management (BZWIM) has around £5bn in this area.

The problem with any description of quantitative management is that what one fund manager calls Quant, another will dismiss as half-baked or as merely a disguise for an unaltered traditional approach.

Increasingly, many balanced managers are incorporating a degree of quantitative analysis into an otherwise active approach. This usually involves some form of so-called screening, using price or value data to produce lists of recommended stocks from which portfolio selections are made.


Paul Woolley: founder

To specialist managers, such as the recently-formed PanAgora Investment Management, such an approach is rarely backed by a consistent quantitative discipline. They argue that Quant can only flourish when it is divorced from traditional asset management.

However, demand for purely passive investment products such as index funds is as strong as ever, and UK funds are showing more interest in international index funds.

Fund managers are in broad agreement that widely-defined quantitative management is still seeing substantial new flows, with most money going into index funds. Resistance from trustees has gradually wilted under pressure from several powerful arguments.

First, traditional balanced managers have not performed well over the past five years against the various index benchmarks. Second, there are persuasive cost-saving arguments. Third, Quant managers have proved more adept at marketing and have played down the off-putting black-box image of their business in favour of simpler arguments.

Within indexation, managers describe a trend towards international equity products where the recent performance figures make a compelling case. Most UK funds would improve the performance of their international assets by indexing at least a portion of their fund.

Consultants, accused by some fund managers of taking a long time to advocate Quant to clients, are now incorporating indexation in their long-term advice and asset-liability studies.

There is resistance from many funds, however, mainly because of an abiding fear of the Japanese market. Japan was mainly responsible for the strong performance of international markets in the 1980s, but its short-term collapse this year might serve further to put off hesitant funds.

According to Mr Robert Browne of County NatWest Investment Management (CNIM), the development of pure Quant products is proving a slow, but steady process. "As indexation is shown to have delivered, trustees will start to ask what is next," he says.

Others agree. However, they also agree that trustees are still a thoroughly conservative group, with a tendency to see new Quant products as risky.

Mr Paul Woolley, founder of the specialist Quant manager GMO Woolley, identifies a spin-off from the trend towards indexation. His company now runs £350m for around 10 clients, many of which are sophisticated and have adopted US-style specialist managers around an indexed core fund.

GMO Woolley has an active Quant style, using models to identify under-valued assets. For example, it runs a value-driven UK equity product which, in addition to multi-variable analysis and optimisation, exploits the insight that returns on equity have a strong tendency to regress to the mean. In other words, both negative and positive growth rates on individual stocks tend to be extrapolated too far into the future by most investors.

More and more active fund managers are driving stock-picking products with Quant fuel. For example, at Baring Investment Management, a special screening fund uses eight different screens in four categories to select stocks. "The investment process is very clear in terms of explaining decisions to clients," says Mr Michael Banton.

In back-testing this approach, Barings found a negative correlation with its traditional balanced management and decided the volatile screening model could be used to increase diversification.

A surprising number of trustees would still query a Quant approach, and according to consultants there are cases where a fund has indexed most of its assets while retaining balanced managers to handle the rest of the portfolio.

Quantitatively-based asset allocation models have become a permanent feature of the pension fund investment scene in the US and many UK fund managers are now aggressively marketing such products.

It is widely accepted that short-term asset allocation decisions do not add consistently to long-term performance, but the relative scarcity of experienced asset allocation advisers has made this a difficult area for many trustees. The temporary decline of fixed-income instruments as a key asset class for pension funds has been a welcome trend, simplifying the asset allocation question.

The cultural problems once faced by Quant managers operating within a larger traditional investment house have diminished somewhat as more applications for Quant have become accepted.

As Barings' Michael Banton says: "In the US, there are hardly any examples of houses which have successfully combined Quant and traditional management. But it's an artificial distinction anyway. All fund managers should use some degree of Quant."

Specialists might disagree, arguing that Quant cannot be squared with traditional management. Trustees will see plenty of argument before that debate is finished.


Michael Banton: the investment process is very clear

DERIVATIVES

Pushed into the limelight

AT THE annual conference of the National Association of Pension Funds next week, fund managers will be tempted to put their cash into the high returns of futures and options with the launch of two dedicated funds. Changes in the law have made derivatives a viable investment for pension funds and the market is eager to encourage them.

The Rudolf Wolff Futures Trust and Excalibur, a futures fund created by Paine Webber, are both due to be launched at the pension funds conference in a bid to entice fund managers into an unfamiliar area.

The Robert Fraser Guaranteed Futures fund is already talking to some of the biggest pension funds since its launch at the beginning of the year. It is an uphill climb to overcome the innate conservatism of many fund managers.

Nevertheless, derivative products have been thrust to centre stage this year since UK regulators drafted rules for the creation of futures funds and Mr John Major, the UK Chancellor of the Exchequer, altered the tax treatment of futures. These developments have increased the access of pension funds to the multi-billion dollar derivatives market.

Above all, the tax changes have removed a psychological barrier to the involvement of fund managers in the futures markets. The changes which were laid out in the recent UK Finance bill, should remove the uncertainty from managers' minds that they will be stuck with a large tax bill for their futures transactions.


Trevor Pullen

The problem for pension funds and unit trusts centred on their tax status and left them with the responsibility to prove they were using the markets for hedging purposes and not trading. By trading futures, fund managers were previously liable to pay corporation tax on gains.

Mr Major has now removed the spectre of a tax charge from pension funds and unit trusts and has made trading income from futures and options transactions exempt from tax. In doing this he went even further than London's markets had hoped in clearing the pitch for a large-scale involvement by pension funds.

The changes mean pension funds can make anticipatory hedges without holding the underlying instrument. For instance, they will be able to buy call or put options without holding the underlying stock – often a much cheaper way to gain exposure to the equity market. In addition, commissions are much cheaper in the futures markets which will cut down the costs of dealing for pension funds.

Mr Trevor Pullen, director of Prudential Portfolio Managers, the investment arm of the insurance company, says the changes will allow him to take a shorter-term view of the market. It will mean he can leave his painstakingly constructed portfolios of equities intact and move his exposure with the use of futures.

Mr Pullen estimates that commissions in the stock market cost him an average of 2.5 per cent per transaction, while in the derivatives markets they are closer to 0.1 per cent, meaning futures are a much more cost-effective way for him to manoeuvre his holdings.

While the tax changes will enable pension funds to do much more with derivatives for their own accounts, new regulations on futures funds will open up to them the $8bn world market in managed futures. The rules allow the creation of authorised futures funds in the UK – products which have achieved immense popularity in the US.

Pension funds will be able to create these funds and sell them to retail investors, but they will also be encouraged to invest in funds targeted at institutional clients. The Robert Fraser, Rudolf Wolff and Excalibur funds have all been set up to exploit this new area and are being marketed heavily.

These three funds have been set up outside the new regulations as unauthorised futures funds which means they can be sold only to institutional investors. The new funds are cashing in on the wave of interest in futures funds before the new regulations become law at the end of the year.

The Robert Fraser fund which is already in existence is directed at the most conservative of pension funds since it offers them a chance to customise the risk profile for individual institutions. This is a key to hooking the interest of the pension funds since they remain extremely wary of futures contracts. In addition, the fund provides a guarantee for a return of principal after four years, which is a comforting element for managers.

It will take some time for pension funds and unit trusts to throw themselves wholeheartedly into the futures and options market, but their interest is certainly real. When James Capel, the UK brokerage house, held a seminar recently to explain the draft regulations on futures funds, it attracted more than 80 pension fund and unit trust representatives.

The creation of futures funds could prove a lucrative area for pension funds since these instruments have proved so popular abroad. Until recently, the only way to sell them to individual investors in the UK was to set them up offshore.

Last year Mercury Asset Management, a subsidiary of SG Warburg, raised $50m in six weeks for an options income fund it created in Luxembourg. The company is understood to have tried hard to set up the fund in the UK, but was thwarted by tax and regulatory obstacles. With this sort of money now available to UK pension funds, it is not surprising they have all started to position themselves for the onset of a totally new market.

Deborah Hargreaves

The field in pooled funds is beginning to open up, says **Peta Hodge**

No longer a two-horse race

SINCE 1988 the fight for new pooled managed fund business was widely reported to be a two-horse race, with Provident Mutual leading Confederation Life by a neck. Now, perhaps, the field is beginning to open up.

It is no longer the race with the biggest prizes. According to the CAPS survey of UK pooled pension funds (formerly the William M. Mercer Fraser survey of pooled pension funds), the median return achieved in 1989 by the 60 or so funds it monitors, was 29.3 per cent.

Although this is more than three times average salary inflation over the period, it is considerably less than the 31.5 per cent achieved by the median segregated fund monitored by CAPS.

This is a decided change from the 1988 position when the median pooled pension fund monitored by Mercer Fraser achieved 12.3 per cent, compared with the CAPS segregated median of 11.7 per cent.

Similarly, in 1987 the median pooled fund outperformed the segregated median by 1.5 per cent.

The reasons for last year's relative underperformance by pooled funds are largely historical.

Pooled managed funds, operating on an exempt and unitised basis, were initially launched by the life offices as a means of retaining pension schemes as clients when they switched from being insured.

They allow smaller pension funds (usually less than £10m) to diversify across the asset classes – equities, fixed interest, property, etc – on a cost effective basis.

Although merchant banks and other investment houses have been attracted to the provision of pooled managed funds over recent years, life offices still account for more than half the pooled fund providers and manage the vast bulk of pooled pension fund money.

This life office domination has resulted in an average asset allocation which is slightly more conservative than that pursued by the average segregated fund.

An underweighting in equities and higher holdings of fixed interest gilts during 1989 lead to a relatively sluggish performance by pooled funds.

On the other hand, these funds reaped the benefits of relatively higher property holdings during 1987 and 1988.

The importance of asset allocation is born out by the top and bottom performing funds in the CAPS universe. Fidelity, with a return of 44.4 per cent, and London Life, with just 22 per cent.

Fidelity benefited from its overweighting in equities, particularly overseas, where it increased its holding from 23 per cent to 36 per cent during the year. Its overseas stock selection over the period was also particularly good.

Second and third performing fund over the year, Britannia Life (formerly known as FS Assurance), with a return of 42.2 per cent and Midland Montagu with 40.1 per cent, were both 95 per cent in equities at the end of 1989. Both invested more heavily in the domestic market than Fidelity, with 66 per cent and 67 per cent respectively.

Another possible factor in the outperformance of these funds – and one which will perhaps cause trustees of small pension funds to pause before investing in them – is their size.

With Britannia Life's fund at £17m, Fidelity's at £11m and Midland Montagu's at just £2m at the end of 1989, they are some of the smallest in the CAPS universe.

As such, they have much more flexibility than their heavyweight competitors. It is impossible to know whether they will be able to produce this kind of performance if and when they reach the size of Scottish Widows' £3,188m fund.

The new providers of pooled funds also have a credibility problem. Take the case of a merchant bank, with several £bn-worth of pension fund money under segregated management, running a pooled fund of less than £20m.

How is a trustee to be convinced that the pooled fund forms an important enough part of the manager's business to receive continued attention?

Mr Philip Nash, joint managing director of Fidelity Pensions Management, agrees that size is important: "If you're managing a £100m fund, that is perceived to be a substantial amount.

A £10m pooled fund is not emotionally of the same weight. Which in Fidelity's case does not really make sense because we're using exactly the same investment procedures and investment personnel."

There is also the question of track record. Mr Nash concedes that while 12 months' sparkling performance is helpful, trustees have longer-term horizons. Fidelity cannot yet consider itself an established player.

Although Confederation Life and Provident Mutual plummeted into the fourth quartile in the year to December 31, 1989, over the 10-year period, they are still in the top five funds (based on a universe of 28), along with Alexander Stenhouse, Guardian Royal Exchange and Scottish Widows.

All five attracted large amounts of new business during 1989. This was particularly true at Confederation Life where *funds* nearly *doubled* during 1989, and at Provident Mutual, where funds increased to £2,613m in 1989.

Interestingly, Confederation Life's 1990 new business figure is 20 per cent up on this time last year – which suggests trustees do indeed take a long-term view.

Mr Colin Wilkinson, director of group life and pensions at Confederation Life, maintains it would be wrong to make too much of last year's underperformance. "It is exactly what you would have expected of our style of manager. We are interested in fundamental value – what we rely on in is that, over time, well run, well financed companies will outperform.

Last year the market wasn't interested in fundamental value. It was driven by fear hope and greed, and in particular takeovers and rumours of takeovers."

Mr Wilkinson says that Confederation Life's fundamental approach to stock selection and its conservative equity holding have already paid dividends in 1990. But this is no time for complacency.

During the 1980s the average pooled fund achieved high real rates of return, in spite of its conservatism toward's UK equities – the decade's best performing sector. Of the top five funds over the period, only GRE maintained a higher than average weighting in this sector.

Whether pooled funds will find such high rates of return so easy to achieve during the 1990s remains open to doubt.

Mr Philip Nash certainly believes that pooled fund managers will face pressure for change over the next decade.

"Performance has always been relatively more important for pooled funds than for segregated funds – if you are receiving a personal service, aspects other than performance hold more weight. Smaller business have less sophisticated demands and so the bottom line is more important.

"But the market place is becoming more sophisticated. Trustees will want to make sure that no big risks are being taken with their pooled fund and that the asset allocation is right," he says.

POOLED FUNDS

LIFE OFFICE	Size at December 31 (£m) 1989	1988	% change 88/89	Type of units
Scottish Widows**	3,330.0	2,577.0	29.2	Man, Pr, C, SE
Provident Mutual	2,613.0	1,996.8	30.9	Div, E, FI, Pr, Dep, Int, IL
Legal & General	2, 336.0	1, 683.0*	38.8	OS, FI, Pr, Dep, Int, IL, C
Scottish Amicable	1, 955.8	1, 599.0	22.3	Man
Standard Life***	1, 495.6	1, 032.0*	44.9	FI, C, Int, IL
Confederation Life	1, 465.0*	807.3	81.5	Man, E, FI, Pr, D/C, Int, IL
Sun Life	888.8	706.7	25.7	M, E, FI, Pr, C, Int, SE, IL
Prudential	825.3	955.7	−23.6	Disc, E, FI, Pr, C, Int, IL
Norwich Union	726.7	514.8	41.2	M, E, FI, Pr, Int, IL, Dep
Eagle Star	623.0	496.0	25.5	M, E, FI, Pr, MM, O, IL, SC

Notes: types of units: Man-Managed, E-Equity, M-Mixed, Pr-Property, C-Cash, SE-Stock Exchange, Div-Diversified, FI-Fixed Interest, Dep-Deposit, Int-International, IL-Index Linked, D/C-Deposit/Cash, Disc-Discretionary, MM-Money Market, O-Overseas, SC-Smaller Companies.
* Including other funds in addition to group managed, eg segregated funds.
** Scottish Widows: EUT valued at £84.4m (£81.4m) with Mixed Unit not included in the above.
*** Standard Life series 1 & 2 with 6 Units (FI, C, Int, IL, M, E) not included in the above.

Source: Willis Consulting Ltd.

Andrew Freeman looks at sterling bonds

A sharp decline in interest

THE latest figures suggest that UK pension fund investment in sterling bonds has undergone a fundamental change over the last 10 years, with much of that change occurring since 1987.

The WM Company's Annual Review shows that in its pension fund universe of 1,552 funds, representing 77 per cent of all UK pension fund assets, the weighting of UK bonds as a proportion of total assets fell last year to its lowest level since the universe began.

The average fund now holds just 6 per cent of its assets in sterling bonds, compared with 21 per cent in 1980, 17 per cent in 1984, 13 per cent in 1987 and 10 per cent in 1987.

As an asset class, sterling bonds have had a negative cash flow allocation for the past three years. Some money has been put into international bonds, which now represent around 2 per cent of the average portfolio.

The vast majority of the cash, however, has been placed in international equities where exposure increased sharply to around 21 per cent of total assets, compared with a mere 9 per cent in 1980.

There are several reasons for the sharp decline of interest in sterling bonds. Clearly, the high rate of UK inflation and the continuing poor outlook have created an environment in which the capital value and performance of long-term fixed-income holdings have been seriously eroded.

Last year, UK bonds produced a mere 7.4 per cent annual return, compared with 36 per cent from UK equities and 40.3 per cent from overseas equities. Even cash returned 14.2 per cent.

From a longer-term perspective, the performance figures are more respectable, but the average is distorted by an unusually strong return in 1982.

By contrast, UK equities have consistently produced real returns over the past decade.

However, factors within the sector have also reduced the attraction of sterling bonds to investors.

The UK government's buy-in programme of its own long-term debts, while driving yields on select gilt issues to unrealistically tight levels, had a negative effect on confidence as investment funds debated the potential damage to liquidity.

Further, and more fundamentally, the widely predicted surge in non-gilt issuance by supranational and corporate borrowers stimulated a change in investment patterns. Within sterling bond portfolios, the percentage of non-gilt assets rose from a previously insignificant 5 per cent on average to between 25 and 40 per cent depending on market conditions.

This enforced greater reliance on non-gilt instruments created portfolio management problems for fund managers and investors alike. For example, a fund wanting to shift its position on the yield curve could not rely on instant implementation.

In particular, the corporate bond market lacks a large core of liquid issues which would allow quick switching activity. The growing interest outside the UK in Eurosterling bonds has only added to the tendency for at least part of most issues to be locked away by investors intending to hold the bonds to maturity.

Many research analysts have produced detailed arguments suggesting that investors in sterling bonds have ignored the value of non-gilts versus gilts.

Among the evidence is compelling data showing that spreads of corporate bonds over gilts often reach levels which are not justified by either historic corporate default rates or the most pessimistic assumptions about the UK economy.

Barclays de Zoete Wedd recently published its first quarter review of the sterling market and noted that although spreads between gilts and other sterling issues had narrowed slightly over the quarter they remained at very wide levels.

For example, BZW's secured corporate bond index was still at 130 basis points over the 9 per cent gilt maturing 2008, while the unsecured index was at 212 basis points, compared with 244 basis points at the start of the year.

In spite of this, and in spite of the better performance by non-gilts over gilts in the short term, the corporate sector recently suffered a further blow to its fragile reputation for liquidity.

As the prices of corporate bonds dropped over the past six months and spreads against gilts widened to historically unprecedented levels, many borrowers began asking themselves whether they could exploit the discounts at which their debt was trading.

Syndicate officials, finding themselves with little new issue business as the fundamentals declined, were only too pleased to help borrowers to buy back some proportion or all of issues trading significantly below par.

The result was a series of buy-ins by borrowers as diverse as Trusthouse Forte, Barclays Bank, Hanson and the Rank Organisation, most of which aroused comment as some marketmakers found themselves short of stock. Where a buy-in was of a complete issue, there was usually little controversy because each party in the transaction had a tangible benefit.

The borrower enjoyed a windfall capital gain free from punitive tax, the investor sold the bonds for a higher price than that prevailing in the market and the buy-in agent earned precious fees.

Controversy, however, centred on partial buy-ins where borrowers did not clarify their intentions towards the rest of the issue in question.

Investors faced the possibility that they would be left holding the illiquid rump of an issue, unable to sell it and forced to carry the paper to maturity.

This proved particularly damaging because many funds had been tempted to second-guess the corporate market by investing in issues they thought might be the subject of a buy-in.

Much of the fuss over buy-ins came from marketmakers and concerned the procedure adopted by the agent for informing the market that a buy-in was or would be occurring.

Much of the damage, however, was done to the corporate bond market as a whole. There seems little doubt in retrospect that liquidity in certain issues was adversely affected by the buy-in phenomenon.

PERSONAL PENSIONS

Rush did not materialise

LIFE ASSURANCE companies have had a virtual monopoly in the provision of personal pensions since the earliest versions were launched in 1956.

Over the next 30 years the plans were honed and adjusted in the light of changing legislation and consumer demands to evolve into the highly sophisticated and flexible schemes available today, with over 100 life offices in the market.

A revolution overtook the personal pensions market in the mid-1980s as Mr Norman Fowler, then Secretary of State for Social Services, revised the way in which pensions could be provided to individuals. He made sweeping changes which affected people in company pension schemes, giving them the right to leave a company scheme and start their own personal pension.

In spite of two false starts, new-style personal pensions were launched in July 1988, along with the facility for new providers, previously excluded, to offer personal pensions for the first time. These included banks, building societies and unit trust groups.

The anticipated rush of new providers into personal pensions has not materialised. Doubly handicapped by a market saturated by the life offices, and restricted to levying only single contribution charges on their pension plans, the unit trust groups have been slow to respond to the opening up of this market. And in spite of the long track records of some of the corporate pension fund managers, very few of them seem interested in the retail sector.

For any new provider, the costs of entering the retail pensions market can be high. However, there are other ways of getting a toe-hold in this potentially lucrative sector without incurring large start-up costs. Phillips & Drew Fund Managers, the second largest corporate pension fund manager, has entered it indirectly by providing fund management for Devonshire Life's own life and pensions plans. Devonshire was taken over last year by American Express, and changed its name to Acumax.

Other corporate managers have established links with the retail market by offering a range of funds to life offices which have ready-made distribution outlets and administration systems. With this arrangement everyone benefits: the unit trust groups get access to the personal pensions market at minimal cost, and life companies are able to offer a much wider range of funds.

Skandia Life, for example, offers a range of 230 funds via its links with 12 different unit trust groups. Buyers of the personal pension can switch not only between a unit trust group's funds, but also between different unit trust groups.

One of these, Fidelity, is on the list of both Skandia and Professional Life, which Skandia took over last year as Framlington Life. In addition, Fidelity is one of only a handful of unit trust groups that have entered the personal pensions market in its own right.

Fidelity, along with Midland Bank and N.M. Rothschild, came into the retail market at the very first opportunity in July 1988. It is not worried about the market being saturated by the life offices, seeing itself as a niche player. It offers a single contribution plan with a minimum of £2,000 which can be topped up with a minimum of £200, thereby limiting its costs.

Gartmore, which came into the market in November 1988, does not use its range of retail unit trusts for personal pensions – it uses a separate range managed by the same team that manages the corporate pension fund side.

Gartmore offers two novel concepts on its personal pensions. It offers a programmed series of switches throughout the term of the pension up to retirement. The older the individual, the less is invested in equities as more is moved into cash. There is no extra charge, and the individual can override the automatic switching.

The other novelty is a link with Swiss Life announced recently enabling Gartmore to provide a range of benefits not offered by unit trust groups alone; these include the facility to waive premiums in cases of ill health and tax efficient life insurance cover.

Mercury came into the market in October 1989, and unlike the other new providers in this market, opted to set up its own life company to offer personal pensions. In this way it can get around the charges problem, and also offer the range of benefits which can only be provided by a life office.

N.M. Rothschild, an early entrant to personal pensions, "wanted to be in the retail market, looked at PEPS, but decided not to go for that". It needed a vehicle to sell unit trusts and the new personal pensions "seemed a good bet." Like the other unit trust groups, it has no sales force, and does no direct response advertising for its personal pensions. Instead, it relies on independent intermediaries.

Touche Remnant which entered this market just over a year ago, aims to appeal to the sophisticated investor.

Janet Walford

Editor, Money Management

Richard Waters on the regulation of pensions

Self-investment concern

WITH THE Financial Services Act bedded down and, by all accounts, working smoothly for occupational pension schemes, the main regulatory issue facing such schemes comes from a different direction: the Social Security Bill.

The plan to limit investment by pension schemes in their "parent" companies to 5 per cent of scheme assets is likely to cause problems for a minority of schemes, particularly those which have invested in property which takes them above the 5 per cent ceiling.

Concern about self-investment has arisen from the potential conflicts of interest that can arise when the company is subjected to an unwanted takeover bid.

"Our conclusion was, don't get yourself into that position," says the National Association of Pension Funds, which brought out its own guidelines on self-investment 18 months ago.

The Government's definition of self-investment is widely drawn: besides taking in shares, loans and property investment, it includes any money owed by the company to the scheme, for instance because it is late with contribution payments. This contrasts with the definition in the NAPF's own guideline, which recommends a maximum of 2 per cent – but effectively covers only shares in the company.

The 5 per cent ceiling could cause a problem for a significant minority of schemes. On the one hand, divesting themselves of shares between now and the expected implementation of the 5 per cent rule – the end of 1991 – should cause few problems, says the NAPF.

However, property investments are less easy to shift. Without adequate transitional arrangements, schemes caught in this position could be forced in sales – to the detriment of their members.

Part of the problem is that little is known about how many schemes will be affected, and how seriously. The NAPF's latest information suggests that the problem does not run deep.

Around two out of every five trust deeds allow self-investment, and a quarter of funds go in for some form of self-investment (in the wider sense), it says.

Most fall below the 5 per cent ceiling, though a handful have invested anything between 5-20 per cent of their funds in their company. The Government is to undertake its own research during the summer.

Self investment, meanwhile, is largely outside the scope of the Financial Services Act. The act is likely to come into play only if an investment infringes the requirement for "suitability" – an unlikely occurrence. "It would have to be fairly clear case of unsuitability before our rule was breached," says Mr Ronald Smith, director of operations at the Investment Management Regulatory Organisation.

IMRO's attitude to self-investment reflects its general approach to the interaction of the Financial Services Act with the trust law which governs pension scheme investment. Any attempt by the FSA regulators to extend their reach more fully into areas covered by trust law would greatly complicate matters without adding to the protection of beneficiaries, it believes.

The Financial Services Act regime has, by all accounts, settled down with few problems. Under section 191 of the act, trustees who do not take day-to-day decisions about the investments in their funds are excused the full rigours of the regime, but are subjected to the lighter touch of chapter 11 of IMRO's rulebook.

There were fears that the expression "day-to-day" would prove a trap for unwary trustees, catching out some who thought they had no need to be regulated. However, IMRO says it has had no cases so far of trustees not being registered when they should have been.

Elsewhere, the main regulatory issue of recent months has been that of soft commissions – that is, arrangements under which investors direct their business to particular brokers in return for specific services. Such arrangements bring concerns that investment managers might lose sight of their clients' interests, and that some of the services on offer have not been as closely linked to helping investment managers make decisions on behalf of the clients as they have should been.

The Securities and Investments Board last autumn shied away from proposing a ban of soft commissions, but suggested fuller disclosure of these arrangements to clients. It also proposed a ceiling of 25 per cent on the proportion of business an investment manager conducts with soft commission brokers rather than so-called "traditional" brokers.

The SIB is due to publish its latest thoughts on this subject during the coming weeks. The most significant change is expected to be the abandonment of the 25 per cent ceiling – something which the SIB admitted from the start was arbitrary in any case, and which has aroused accusations from soft commission brokers of anti-competitive rule-making.

In a further change of tack, the proposal that trustees should themselves be required to direct investment managers to give business to a particular broker in return for performance measurement information, such as that provided by WM, is expected to be dropped.

The SIB's objective of encouraging disclosure of soft commission arrangements, though, has received widespread support.

Meanwhile, many occupational pension schemes have recently been experiencing their first taste of the Financial Services Act at close quarters. IMRO has directed its regular inspection visits to these schemes for the first time – reflecting the fact that this is not considered by the regulators to be a high-risk area.

IMRO's conclusions after its first series of visits was that most schemes are well run, although some need to improve their operations. The most common complaints are inadequate record keeping and a failure to ensure that all staff are adequately trained.

John Plender looks at relations between investors and companies

A certain sourness in the City

RELATIONS between institutional investors and the companies whose shares they own have never been devoid of tension. But at the start of the 1990s they appear to be at a notably low ebb.

Mr David Hopkinson, former chairman of M & G Investment Management, has referred to a deplorable decline in relations between the City and industry during the last three years. His remarks have been echoed by other leading figures in finance and industry.

Some degree of tension is probably an inevitable consequence of the divorce between ownership and control in industry. That said, the sourness that characterises relations between the City and industry is a legacy of an exceptionally frenetic takeover period in the 1980s. The market in corporate control in Britain is the least constrained in the world; and since Mr Norman Tebbit's brief tenure as Trade Secretary references to the Monopolies and Mergers Commission have been governed largely by competition criteria instead of more nebulous considerations of public interest.

This policy rests on the assumption that UK's economic interests are best served by allowing companies to be controlled by those who value them most highly. The results are sometimes disconcerting even for free market industrialists and fund managers.

What good does it do Rowntree, which has successfully built up new confectionery brands over long periods in the UK, to be taken over by Switzerland's Nestlé, whose own efforts to build brands in the same market have been notably less successful? What is Mr Roland Franklin, best known for his role in the disastrous *secondary banking fiasco* at Keyser Ullmann in the 1970s, able to offer DRG, a paper and office equipment group that was regarded as having largely put its house in order?

Such questions can be raised in numerous other cases. And the investment institutions are usually blamed for accepting the predator's offer on the basis of short-term performance criteria. But the real problem lies in the difference between the basis of company valuation in the takeover market and the much lower valuations that apply when shares are being traded day to day.

The knowledge that the premium for control of the target company will disappear if the bid fails, causing the share *price to fall sharply*, means that fund managers cannot lightly spurn a contested offer, especially when it is made, as at DRG or Rowntree, in cash.

This is not the only way in which the chain of accountability from managers to owners works in a haphazard fashion. Many fund managers acknowledge that they have been too prone to rely on takeovers as a last-ditch remedy for problems that could have been addressed through more direct intervention in the boardroom. Cases such as T & N, the construction materials and motor components group where the Prudential spearheaded a boardroom coup, are rare.

Missed opportunities are easier to identify. Distillers, *Plessey, Chloride* and *Storehouse* are obvious examples of companies that might have benefited from earlier institutional intervention. And there are still a number of diversified companies that might benefit from the kind of treatment that Sir James Goldsmith's Hoylake consortium had hoped to impose on BAT Industries.

Many institutions are unhappy about the SmithKline Beecham merger. Few, on the other hand, second-guess management on such a large strategic move in a sophisticated industry. Even when the institutions do have the expertise to tackle management on an equal footing, there may be other reasons for non-intervention, as at Pearl Assurance.

Pearl succumbed to a predatory offer that some thought unduly cheap. It was thought to have hidden its light under an actuarial bushel. Yet its earnings performance was arguably too good to make intervention justifiable. Since Pearl was an insurance company there was the old misgiving about dog eating dog.

Conflicts of interest may also play a part. Fund managers in merchant banks have rarely been active interventionists, partly because they have been reluctant to alienate the bank's corporate finance clients, actual and potential. And while such reticence ought in theory to have disappeared as a result of the creation of Chinese Walls, fund managers admit in private that the constraint still exists.

There are, then, limits to the extent to which the institutions will turn themselves into successful productivity chasers in UK industry. The political climate, under Mrs Thatcher, has anyway been unsympathetic to activities that smack of paternalism or nannying. And much of the emphasis in recent institutional interventions has been directed towards purely financial considerations.

Arguments about pre-emption – the shareholders' right to have first bite at the cherry when companies issue fresh equity capital – are close to the hearts of many institutional investors. So, too, are the rules governing executive share option schemes. Both can lead to the dilution of the institutions' stake in UK industry and they have been reluctant to make concessions on this score unless they are offered something tangible.

The institutions' cautious attitude to leveraged buy-outs in the UK has probably saved the financial system from a much bigger débâcle than it might have suffered if the US model had been imitated.

Barry Riley examines the charging structures of external managers

Gloomy outlook for more transparent fees

HOPES THAT that the charging structure of external managers of UK pension funds would become more transparent, or "cleaner," are being dashed.

When the stock market's Big Bang reforms were implemented in October 1986 there were expectations that double charging practices would be terminated. Before Big Bang many pension fund managers dealt in bulk for several clients at the lowest commission rate, then charged a higher rate appropriate to smaller deals when parcelling the shares out to individual client portfolios, a practice known as aggregation or continuation. After Big Bang this ceased to be possible because the fixed commission scale was abolished. The expectation was that managers would be forced to charge much higher "clean fees."

Generally, it has not happened, although several managers have offered alternative charging scales. Last June, for example, Hill Samuel announced a scale of clean fees, about twice as high as its normal basis.

Average published direct fees received by UK pension fund investment managers are about 0.2 per cent. That compares with a figure nearly twice as high in the US. But UK schemes are not getting a cheap deal. Most of the gap is filled by extra charges. However, most British managers include custody as a bundled service, whereas US pension plans pay separately.

It is hard to blame fairly for the confused state of affairs in the UK. Managers must be largely responsible. But all too often their clients have their own good reasons for burying costs within their funds.

"We prefer to collect our fees in an open way," says Mr Colin Day, chairman of the pension fund business at Henderson Administration. "But clients don't always want it like that. Also, you can't always stand out against double charging on principle in a commercial market place. Clients don't like getting an invoice."

Consultant Mr David Hager, of Bacon & Woodrow, has collected some fascinating statistics on the charging jungle. He finds that a £100m fund managed by one of the 10 largest managers will probably be paying a nominal fee of about 0.16 per cent, but total costs to the client will in reality be nearly twice as high, at 0.31 per cent.

These figures include stockbroking commissions as part of the costs. It may not be entirely fair to regard these as expenses of investment management, in that they are not received by the managers. But it is possible to avoid them, at least in the UK, by dealing on a net basis directly with market makers. This would eliminate the possibility, however, of partially clawing back "soft" commissions in the form of services provided by the brokers or paid for by them. Even excluding commissions, costs for the £100m fund are around 0.25 per cent, or over half as much again as nominally quoted.

One extra charge commonly imposed is on overseas dealing. Typically, 0.5 per cent is charged on purchases and sales of overseas equities, and while trading overseas may genuinely involve extra expenses, these are not necessarily always fully in proportion to the revenue gained.

During the 1980s holdings of foreign equities have greatly expanded, so these dealing charges have become much more important. One way of looking at it is that balanced fund managers in the UK are increasingly providing an expensive global service for their UK pension fund clients, but are still nominally charging UK-related fees.

One danger of double charging is that there may be an encouragement for managers to engage in excessive overseas trading activity. According to the official publication *Financial Statistics*, the foreign equity portfolios of UK pension funds are turned over more than twice as rapidly as their domestic equity holdings.

Managers also have another way of creaming off extra revenue from overseas investments, by channelling them through unit trusts. These carry annual management charges of 1 per cent or even 1¼ per cent, dwarfing the regular management charges, which at least are generally rebated in respect of these elements of the portfolio.

There may indeed be good reasons for putting clients into unit trusts or for turning over foreign equity portfolios rapidly. Mr Hager is critical of the practices that have emerged. There is, he says, overuse of unit trusts. He fears that the recent limited approval by the Securities and Investments Board of soft commissions will add a new legitimacy to a controversial practice.

Unless a line is drawn, clients are likely to find that more of their portfolios are directed into doubled-charged investments. Some managers are setting up unit trusts for foreign bonds and even UK gilt-edged. The next step could be that many UK equities will be handled through "specialised" unitised funds. There is more transparency in the alternative approach of putting most of the money in core index funds, and the balance with specialised active managers. Fees here are more honest, and have become highly polarised.

Something of a cut-throat battle is going on between index fund managers. According to Mr Hager: "There are a number of people in the market who will not be undercut." Anything down to 0.03 per cent has been negotiated, although for overseas index funds the fees are a little higher, in the 0.10 to 0.15 per cent range for larger funds.

Specialised active managers are at the other end of the scale. Fidelity, in particular, has aroused the grudging admiration of other managers for its insistence on high fees, often over 0.5 per cent, backed by a refusal to negotiate.

At this end of the market performance counts for everything, and indeed there is increasing discussion of the merits of performance-related fees. At present such fees are thought to apply only to about 5 per cent of funds, and a much lower percentage of overall pension fund assets.

The common practice is to set a base fee level and link bonuses either to index targets, for specialised funds, or to league table objectives (such as top quartile performance) for balanced managers.

These arrangements appeal to corporate clients who are used to sharing risk with suppliers in other fields, and see no reason why pension fund managers should be different. But the incentive effects of performance-related fees will always be controversial.

One "boutique" which has placed a particular stress on performance-related fees is Newton Investment Management.

With a claimed chart-topping median return of 38.9 per cent in 1989 on its £600m of segregated client funds Newton is clearly doing well. But to smooth out the impact the fees are calculated on a rolling four-year basis.

Total costs of investment management to the client

	£10m fund		£100m fund	
All managers on Bacon & Woodrow Database				
	£	% of fund	£	% of fund
Direct fees	36,000	0.36	174,000	0.17
UK commissions		6,000	55,000	
Overseas charges	1,000		22,000	
Overseas commissions	3,000		52,000	
Unit trust fees	8,000		18,000	
Administration	2,000		9,000	
Total	56,000	0.56	330,000	0.33
Total excluding commissions	*47,000*	*0.47*	*224,000*	*0.22*
The 10 largest managers				
Direct fees	40,000	0.40	159,000	0.16
UK commissions	2,000		22,000	
Overseas charges	2,000		41,000	
Overseas commissions	2,000		40,000	
Unit trust fees	12,000		52,000	
Administration	nil		nil	
Total	58,000	0.58	314,000	0.31
Total excluding commissions	*54,000*	*0.54*	*252,000*	*0.25*

Source: Bacon & Woodrow

Brokers' complaints are getting louder, says **Richard Waters**

Frustrated by the flow of commissions

SINCE 1986, institutional investors have had much running in their favour in their dealings with stockbrokers.

Fierce competition brought commissions crashing – and they have stayed low, in spite of the aftermath of the stock market shakes of 1987, which has generally seen reduced trading volume (and hence less income for brokers). It is not surprising that stockbrokers' complaints are getting louder.

The large brokers in particular are getting frustrated with their inability to secure the sort of commission flow which would make life a little more comfortable. The top three agency brokers – James Capel, Warburg Securities and Barclays de Zoete Wedd – together account for less than 30 per cent of customer business in UK equities. That sort of market share, at current trading volumes, does not produce the sort of income to support a top-class research and sales team.

Back-of-envelop sums illustrate their predicament. Total commission income of all brokers this year may be little more than £250m, according to some estimates. That means that a leading firm with a market share of just under 10 per cent would receive commissions of just £25m – scant return for the hefty costs of running a top-quality sales and research team.

The large brokers want a bigger slice of the cake. They look with envy at the market concentration that exists in the market making business, where three houses (Warburg, BZW and Smith New Court) account for over half the market. But there is little sign of that happening for agency business. There is little talk of commission rates actually rising – except in smaller, less well-researched stocks.

The brokers' arguments run as follows. Without more commission income, they are unlikely to be able to sustain a high research service. Top class analysts are increasingly shifted on to corporate finance work to earn their keep.

That, the argument runs, is bad for clients for several reasons. The analyst is no longer able to devote as much time to institutional clients. He loses the confidence of institutions, which in turn makes him less attractive to companies, who talk to him less, leading to a declining spiral in which the analyst loses his prominence.

"Institutions like competition. But if it is too fierce, they may simply not be able to get a good service anymore. It can't be in their interests to see the best analysts spend more and more of their time in corporate finance," warns one large broker whose analysts are heading that way. "The best institutions are sensitive and aware of the potential danger."

With commission rates unlikely to rise, greater market share remains the goal. Winning more of the business achieves two ends – lifting income and helping to squeeze less successful firms out of the market. That in turn eases the competitive pressure, and is more likely to lead to the long-term return to higher commissions for which brokers hope.

Investors continue to be largely unmoved by brokers' concerns. They continue to complain that the average UK research offered by brokers is sub-standard (while acknowledging that there is very high-quality work around in some quarters). They argue that if stockbrokers let their costs run out of control after Big Bang and are now paying the penalty, that is their own fault. Furthermore, while they make little on UK equities, brokers still make a healthy living from foreign stocks and derivative products, and it is investors who ultimately bear that cost.

The large brokers want a bigger slice of the cake

The true cost to institutions of their dealings with brokers is not immediately evident, says SEI, a company which has been assessing dealing costs in the US for the past 10 years and is about to launch a similar service in the UK. According to the company, investors may have paid lower commissions in the US in recent years, but other dealing costs have risen to compensate. Institutions can only really evaluate the costs of their dealings with broker/dealers if they look at the complete picture, SEI says. Such ideas, if they catch on, could help to keep securities firms' profits under pressure for some time to come.

While this is going on, there is little sign of institutions putting more effort into cutting out the middleman and researching stocks themselves. As one broker comments: "Their cost pressures are as intense as ours."

The test of this is the extent to which institutions deal net, without paying commissions. The indications here are that the amount of business done net is not rising, but if anything declining. The Stock Exchange's annual survey of transactions in UK equities shows that 24 per cent of client deals (by value) was undertaken without commission in June 1989. A year before, the figures was higher, at 27 per cent. This picture is confirmed by brokers, who say they continue to notice no decline in the proportion of business which carried commissions with it.

Meanwhile, brokers are being forced to pay more attention to the desirability of continuing with unprofitable business. At least one large house says it is working on a management information system that would tell it the profitability of each client. Costs such as analysts' and salesmen's time, and settlement, will be set against the income from each client.

Armed with this information, the broker expects to challenge unprofitable clients to pay up or look elsewhere for investment ideas.

Such tactics are all part of the effort to encourage investors to pay more. Unless they do, claim brokers, the quality of research in London will inevitably decline.